



This is a digital copy of a book that was preserved for generations on library shelves before it was carefully scanned by Google as part of a project to make the world's books discoverable online.

It has survived long enough for the copyright to expire and the book to enter the public domain. A public domain book is one that was never subject to copyright or whose legal copyright term has expired. Whether a book is in the public domain may vary country to country. Public domain books are our gateways to the past, representing a wealth of history, culture and knowledge that's often difficult to discover.

Marks, notations and other marginalia present in the original volume will appear in this file - a reminder of this book's long journey from the publisher to a library and finally to you.

### Usage guidelines

Google is proud to partner with libraries to digitize public domain materials and make them widely accessible. Public domain books belong to the public and we are merely their custodians. Nevertheless, this work is expensive, so in order to keep providing this resource, we have taken steps to prevent abuse by commercial parties, including placing technical restrictions on automated querying.

We also ask that you:

- + *Make non-commercial use of the files* We designed Google Book Search for use by individuals, and we request that you use these files for personal, non-commercial purposes.
- + *Refrain from automated querying* Do not send automated queries of any sort to Google's system: If you are conducting research on machine translation, optical character recognition or other areas where access to a large amount of text is helpful, please contact us. We encourage the use of public domain materials for these purposes and may be able to help.
- + *Maintain attribution* The Google "watermark" you see on each file is essential for informing people about this project and helping them find additional materials through Google Book Search. Please do not remove it.
- + *Keep it legal* Whatever your use, remember that you are responsible for ensuring that what you are doing is legal. Do not assume that just because we believe a book is in the public domain for users in the United States, that the work is also in the public domain for users in other countries. Whether a book is still in copyright varies from country to country, and we can't offer guidance on whether any specific use of any specific book is allowed. Please do not assume that a book's appearance in Google Book Search means it can be used in any manner anywhere in the world. Copyright infringement liability can be quite severe.

### About Google Book Search

Google's mission is to organize the world's information and to make it universally accessible and useful. Google Book Search helps readers discover the world's books while helping authors and publishers reach new audiences. You can search through the full text of this book on the web at <http://books.google.com/>

Y 4. B22/3: SM 1/6/pt. 1

# SMALL BUSINESS ACT OF 1950



STANFORD  
LIBRARIES

## HEARINGS

P78-32

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY

UNITED STATES SENATE

EIGHTY-FIRST CONGRESS

SECOND SESSION

ON

S. 529, S. 2943, S. 2947, S. 2975,

S. 3386, and S. 3625

BILLS TO MAKE CAPITAL AND CREDIT  
MORE READILY AVAILABLE FOR  
FINANCING SMALL BUSINESS

### PART 1

JUNE 22, 23, 27, AND 28, 1950

Printed for the use of the Committee on Banking and Currency



UNITED STATES  
GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1950

69197

**COMMITTEE ON BANKING AND CURRENCY**

**BURNET R. MAYBANK**, South Carolina, *Chairman*

**GLEN H. TAYLOR**, Idaho

**CHARLES W. TOBEY**, New Hampshire

**J. W. FULBRIGHT**, Arkansas

**HOMER E. CAPEHART**, Indiana

**A. WILLIS ROBERTSON**, Virginia

**RALPH E. FLANDERS**, Vermont

**JOHN J. SPARKMAN**, Alabama

**JOHN W. BRICKER**, Ohio

**J. ALLEN FREAR, Jr.**, Delaware

**IRVING M. IVES**, New York

**PAUL H. DOUGLAS**, Illinois

**RUSSELL B. LONG**, Louisiana

**A. LEE PARSONS**, *Clerk*

**JOS. P. MCMURRAY**, *Staff Director*

## CONTENTS

	Page
S. 529 .....	1
S. 2943 .....	6
S. 2947 .....	8
S. 2975 .....	9
Amendment .....	13
S. 3386 .....	17
S. 3625 .....	21
Statement of—	
Boyd, James, Director, United States Bureau of Mines .....	31
Cosgriff, Walter E., president Continental National Bank & Trust Co., Salt Lake City, Utah .....	162
Gunderson, Harvey J., member, Board of Directors, RFC .....	93
Kirby, Vance N., Treasury Department .....	113
Lucas, Scott W., a United States Senator from the State of Illinois ..	152
McCabe, Thomas B., chairman, Board of Governors, Federal Reserve System .....	128
Sawyer, Charles, Secretary of Commerce .....	39
Letters, statements, exhibits, etc., submitted for the record by—	
Boyd, James, Director, United States Bureau of Mines: Comparison of purchases of gasoline for Government use from large and small distributors .....	89
Gunderson, Harvey J., member, Board of Directors, RFC: Business loan applications by size and State .....	94
McCabe, Thomas B., Chairman, Board of Governors, Federal Reserve System: Tables from a statistical study of Regulation V loans .....	130
O'Mahoney, Joseph C., a United States Senator from the State of Wyoming: Letter to Senator Maybank .....	151
Sawyer, Charles, Secretary of Commerce:	
Summary of differences between title I of S. 3625 and title I, FHA Act .....	55
Progress report of cooperative Government procurement informa- tional program .....	65
Snyder, John W., Secretary of the Treasury: Letter to Senator May- bank .....	114

dependents of those who gave their lives to preserve our country, so as to enable them partially to recoup losses in time, seniority, and opportunities, and in financial and technical advancement, sustained by them as a result of their service in the armed forces by aiding them in their establishment in gainful occupations and careers in business, industry, trades, professions, agriculture, foreign trade, scientific development, research and education under our system of competitive free enterprise without displacing others;

(2) to utilize unused facilities and surpluses throughout the Nation and abroad that are suitable and can be employed profitably to afford opportunities for unemployed veterans, to help reduce the backlog of demand for goods and services, and to help meet the shortages and increasing new demands throughout the world for American goods and services.

(3) to create profitable business, professional, and occupational self-sufficient opportunities for veterans toward reducing to a minimum the need for unemployment compensations and bonuses;

(4) to foster an ever-expanding economy and prosperity toward preserving our system of government, our freedoms and our national security by utilizing fully our veterans who were selected from the cream of the crop of American manhood and womanhood;

(5) to assist qualified veterans engaged in useful and profitable enterprises, services, professions or trades in other countries, thereby cultivating those countries to become increasingly our friends and customers;

(6) to stimulate profitable activity so as to attract the investment of private-risk capital in enterprises within areas in industry, business, agriculture, service trades, transportation, education, foreign trade, and in scientific fields, which in their present state of development do not attract the investment of such capital toward increasing employment of veterans;

(7) to assist State, community, and private agencies in financing self-liquidating projects which will utilize profitably the services of unemployed veterans;

(8) to stimulate enterprises and projects where gainful work opportunities, occupational therapy, and self-reliant careers will be opened to disabled veterans;

(9) to invite public subscription to the funds of the Corporation in order that the people of the Nation may be partners in this enterprise;

(10) to stimulate the maximum utilization and development of abundant natural resources in all geographical areas within the United States, its Territories, and possessions, so as to afford opportunities for veterans and to enrich the Nation; and

(11) to facilitate the establishment of necessary, useful, and profitable new enterprises in the various communities of the Nation that will insure the veterans against unemployment in recessions or depressions and to assure the fullest possible development of all our Nation's peacetime resources to stimulate an ever-expanding base of our national economy for the increasing benefit of all our people.

(b) Nothing contained in this Act shall be construed to authorize the Corporation created under section 5 hereof itself to engage in the operation of any plant, facility, or other business undertaking.

#### DEFINITIONS

Sec. 3. As used in this Act—

(a) The term "veteran" means any person who has served as a member of the armed forces of the United States during any war in which the United States has been engaged and who has been separated from such service under conditions other than dishonorable, and includes a dependent of a disabled veteran and a dependent of a person who died while serving as a member of the armed forces or as a result of injuries incurred or illness contracted while serving as a member of the armed forces.

(b) The term "Corporation" means the Veterans' Economic Development Corporation created under section 5 of this Act.

#### FUNCTIONS OF THE CORPORATION

Sec. 4. The Corporation is empowered—

(a) to make loans to veterans who are engaged in agriculture or in a business, trade, or profession, or who desire to engage in agriculture or in a business, trade, or profession, for the purpose of enabling them to acquire facili-

ties, including land and buildings, equipment, and supplies, or to obtain necessary working capital;

(b) to make loans to veterans or to other persons who furnish such assurances as the Board of Directors may require that the proceeds of such loans will be used in a manner which will furnish substantial employment opportunities for veterans through the establishment of new businesses, the expansion of existing businesses, the construction or operation of multiple tenancy industrial structures or the conversion of existing plants or other structures for such uses, the furnishing of technical, research, business, accounting, or other services to small business enterprises, the conduct of industrial and other research designed to provide new and increased employment, or through other means;

(c) to make loans to municipalities or other public bodies for the construction of needed self-liquidating public works, where such municipalities or other public bodies furnish such assurance as the Board of Directors may require that such construction will furnish substantial employment to, and otherwise inure to the benefit of, veterans or their families;

(d) to make loans to educational institutions, including trade schools, where it is shown to the satisfaction of the Board of Directors that a shortage of facilities exists which impedes the educational program provided under title II of the Servicemen's Readjustment Act of 1944 as amended, and that the proceeds of such loans will be used to make additional educational facilities available to veterans;

(e) to make loans to veterans or other persons who furnish such assurance as the Board of Directors may require that the proceeds of such loans will be used in the construction or acquisition of housing for veterans and their families;

(f) to render technical advisory service to applicants for, and recipients of, loans under this Act, including the furnishing of information concerning business, vocational, and professional opportunities, methods and techniques, and other matters which, in the opinion of the Board of Directors, will contribute to the soundness of the projects or enterprises for the purpose of which loans are made, in the rendering of which service the Corporation shall utilize, wherever possible, the existing informational, research, technical, and other services and facilities conducted by other departments and agencies of the Government;

(g) to conduct such studies, investigations, research, and planning as may be necessary to enable it effectively to provide the advisory and other services authorized under paragraph (f) and otherwise to carry out its functions under this Act;

(h) to perform, upon request of the Administrator of Veterans' Affairs, any of the functions or powers conferred upon the Administrator under title III of the Servicemen's Readjustment Act of 1944, as amended;

(i) to cooperate with the War Assets Administration or its successor, and with agencies which own or are designated to dispose of surplus property, to make surveys from time to time, and to bring to the attention of such agencies the needs and requirements of veterans and any cases or situations which have resulted in or would effect discrimination against veterans in the purchase or acquisition of surplus property by them and in the disposal thereof by the agencies;

(j) to purchase any surplus property for resale to veterans, upon credit or otherwise, when in the judgment of the Board of Directors such disposition will aid in carrying out the purposes of this Act; and

(k) to guarantee loans made by banks or other lending institutions, the proceeds of which are used for any of the purposes for which the Corporation is authorized to make loans under this section.

Loans made by the Corporation under this section shall be made upon such terms and conditions as the Board of Directors shall deem reasonable and necessary (a) to enable the Corporation to carry out its functions under this Act without financial loss to the United States, and (b) to make certain that the proceeds of such loans will be used only for the purposes for which made and in a manner consistent with the objectives of this Act. The Corporation is authorized, upon application by a bank or other lending institution and upon such terms and conditions as the Board shall deem reasonable and necessary, to sell, transfer, and assign to such bank or lending institution any note, mortgage, or other evidence of indebtedness arising out of any such loan and any rights of the Corporation in connection therewith.

# SMALL BUSINESS ACT OF 1950

THURSDAY, JUNE 22, 1950

UNITED STATES SENATE,  
COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C.*

The Committee met pursuant to call, at 10 a. m., in room 301 Senate Office Building, Senator Burnet R. Maybank (chairman) presiding.

Present: Senators Maybank, Robertson, Sparkman, and Capehart.

Also present: Senator Benton.

The CHAIRMAN. I would first like to make a short statement for the record.

There have been several conflicting statements about the hearing on these bills. That was due to the fact that there have been many changes in the procedures of the Policy Committee of the Senate as to what is to be done in this session.

On yesterday it was decided to bring up the tax bill, that is, the removal of the excise taxes and some form of taxation otherwise to replace those taxes if they should be removed.

I notice by the paper, and also in the Congressional Record, Senator George thinks we will probably have to have 2 weeks of hearings on it after it comes over from the House.

Speaking only for myself, it is my judgment it is going to take quite a little while in the Senate to get the so-called tax bill through.

So, as chairman of this committee—if the other members of the committee do not concur with me, of course that is their business, and I will be guided by what the majority says—but it is my judgment in view of the fact that the Congress is not going to recess at any time shortly, we will have ample time this year to complete hearings on all of these small-business bills, S. 529, S. 2943, S. 2947, S. 2975, S. 3386, and S. 3625, which I am going to put in the record, and on which we are going to start hearings today.

(The bills referred to follow:)

[S. 529, 81st Cong., 1st sess.]

A BILL To promote maximum employment, business opportunities, and careers in a free competitive economy

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Veterans Economic Development Corporation Act of 1949."*

## STATEMENT OF OBJECTIVES

SEC. 2. (a) The purposes of this Act are—

(1) to create a corporate entity charged with the direct responsibility of promoting the interests of veterans who are unemployed, veterans who had no employment prior to their war service, veterans who have no particular occupation, disabled veterans, the dependents of disabled veterans and the

dependents of those who gave their lives to preserve our country, so as to enable them partially to recoup losses in time, seniority, and opportunities, and in financial and technical advancement, sustained by them as a result of their service in the armed forces by aiding them in their establishment in gainful occupations and careers in business, industry, trades, professions, agriculture, foreign trade, scientific development, research and education under our system of competitive free enterprise without displacing others;

(2) to utilize unused facilities and surpluses throughout the Nation and abroad that are suitable and can be employed profitably to afford opportunities for unemployed veterans, to help reduce the backlog of demand for goods and services, and to help meet the shortages and increasing new demands throughout the world for American goods and services.

(3) to create profitable business, professional, and occupational self-sufficient opportunities for veterans toward reducing to a minimum the need for unemployment compensations and bonuses;

(4) to foster an ever-expanding economy and prosperity toward preserving our system of government, our freedoms and our national security by utilizing fully our veterans who were selected from the cream of the crop of American manhood and womanhood;

(5) to assist qualified veterans engaged in useful and profitable enterprises, services, professions or trades in other countries, thereby cultivating those countries to become increasingly our friends and customers;

(6) to stimulate profitable activity so as to attract the investment of private-risk capital in enterprises within areas in industry, business, agriculture, service trades, transportation, education, foreign trade, and in scientific fields, which in their present state of development do not attract the investment of such capital toward increasing employment of veterans;

(7) to assist State, community, and private agencies in financing self-liquidating projects which will utilize profitably the services of unemployed veterans;

(8) to stimulate enterprises and projects where gainful work opportunities, occupational therapy, and self-reliant careers will be opened to disabled veterans;

(9) to invite public subscription to the funds of the Corporation in order that the people of the Nation may be partners in this enterprise;

(10) to stimulate the maximum utilization and development of abundant natural resources in all geographical areas within the United States, its Territories, and possessions, so as to afford opportunities for veterans and to enrich the Nation; and

(11) to facilitate the establishment of necessary, useful, and profitable new enterprises in the various communities of the Nation that will insure the veterans against unemployment in recessions or depressions and to assure the fullest possible development of all our Nation's peacetime resources to stimulate an ever-expanding base of our national economy for the increasing benefit of all our people.

(b) Nothing contained in this Act shall be construed to authorize the Corporation created under section 5 hereof itself to engage in the operation of any plant, facility, or other business undertaking.

#### DEFINITIONS

SEC. 3. As used in this Act—

(a) The term "veteran" means any person who has served as a member of the armed forces of the United States during any war in which the United States has been engaged and who has been separated from such service under conditions other than dishonorable, and includes a dependent of a disabled veteran and a dependent of a person who died while serving as a member of the armed forces or as a result of injuries incurred or illness contracted while serving as a member of the armed forces.

(b) The term "Corporation" means the Veterans' Economic Development Corporation created under section 5 of this Act.

#### FUNCTIONS OF THE CORPORATION

SEC. 4. The Corporation is empowered—

(a) to make loans to veterans who are engaged in agriculture or in a business, trade, or profession, or who desire to engage in agriculture or in a business, trade, or profession, for the purpose of enabling them to acquire facili-



ties, including land and buildings, equipment, and supplies, or to obtain necessary working capital;

(b) to make loans to veterans or to other persons who furnish such assurances as the Board of Directors may require that the proceeds of such loans will be used in a manner which will furnish substantial employment opportunities for veterans through the establishment of new businesses, the expansion of existing businesses, the construction or operation of multiple tenancy industrial structures or the conversion of existing plants or other structures for such uses, the furnishing of technical, research, business, accounting, or other services to small business enterprises, the conduct of industrial and other research designed to provide new and increased employment, or through other means;

(c) to make loans to municipalities or other public bodies for the construction of needed self-liquidating public works, where such municipalities or other public bodies furnish such assurance as the Board of Directors may require that such construction will furnish substantial employment to, and otherwise inure to the benefit of, veterans or their families;

(d) to make loans to educational institutions, including trade schools, where it is shown to the satisfaction of the Board of Directors that a shortage of facilities exists which impedes the educational program provided under title II of the Servicemen's Readjustment Act of 1944 as amended, and that the proceeds of such loans will be used to make additional educational facilities available to veterans;

(e) to make loans to veterans or other persons who furnish such assurance as the Board of Directors may require that the proceeds of such loans will be used in the construction or acquisition of housing for veterans and their families;

(f) to render technical advisory service to applicants for, and recipients of, loans under this Act, including the furnishing of information concerning business, vocational, and professional opportunities, methods and techniques, and other matters which, in the opinion of the Board of Directors, will contribute to the soundness of the projects or enterprises for the purpose of which loans are made, in the rendering of which service the Corporation shall utilize, wherever possible, the existing informational, research, technical, and other services and facilities conducted by other departments and agencies of the Government;

(g) to conduct such studies, investigations, research, and planning as may be necessary to enable it effectively to provide the advisory and other services authorized under paragraph (f) and otherwise to carry out its functions under this Act;

(h) to perform, upon request of the Administrator of Veterans' Affairs, any of the functions or powers conferred upon the Administrator under title III of the Servicemen's Readjustment Act of 1944, as amended;

(i) to cooperate with the War Assets Administration or its successor, and with agencies which own or are designated to dispose of surplus property, to make surveys from time to time, and to bring to the attention of such agencies the needs and requirements of veterans and any cases or situations which have resulted in or would effect discrimination against veterans in the purchase or acquisition of surplus property by them and in the disposal thereof by the agencies;

(j) to purchase any surplus property for resale to veterans, upon credit or otherwise, when in the judgment of the Board of Directors such disposition will aid in carrying out the purposes of this Act; and

(k) to guarantee loans made by banks or other lending institutions, the proceeds of which are used for any of the purposes for which the Corporation is authorized to make loans under this section.

Loans made by the Corporation under this section shall be made upon such terms and conditions as the Board of Directors shall deem reasonable and necessary (a) to enable the Corporation to carry out its functions under this Act without financial loss to the United States, and (b) to make certain that the proceeds of such loans will be used only for the purposes for which made and in a manner consistent with the objectives of this Act. The Corporation is authorized, upon application by a bank or other lending institution and upon such terms and conditions as the Board shall deem reasonable and necessary, to sell, transfer, and assign to such bank or lending institution any note, mortgage, or other evidence of indebtedness arising out of any such loan and any rights of the Corporation in connection therewith.

## THE CORPORATION

Sec. 5. There is hereby created a body corporate under the name "Veterans Economic Development Corporation" (hereinafter referred to as the "Corporation"). The principal office of the Corporation shall be located in the District of Columbia, but the Corporation may establish such branch offices in other places as may be determined by the Board of Directors.

## CAPITAL STOCK

Sec. 6. The Corporation shall have a capital stock of \$500,000,000, subscribed for by the United States through the Secretary of the Treasury, payment for which shall be subject to call in whole or in part by the Board of Directors of the Corporation. For the purpose of enabling the Secretary of the Treasury to make payment for such capital stock, the Secretary is authorized to use as a public-debt transaction the proceeds from the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under the Second Liberty Bond Act, as amended, are extended to include any purchases of the Corporation's capital stock hereunder. Receipts for payment by the United States for or on account of such capital stock shall be issued by the Corporation to the Secretary of the Treasury and shall be evidence of the stock ownership by the United States.

## THE BOARD OF DIRECTORS

Sec. 7. The management of the Corporation shall be vested in a Board of Directors consisting of seven members, not more than four of whom shall be members of the same political party, to be appointed by the President by and with the advice and consent of the Senate. The term of office of directors shall be four years except that (1) the terms of office of the directors first appointed shall run from the date of enactment hereof and shall expire, two at the end of the second year, two at the end of the third year, and three at the end of the fourth year; and (2) a director appointed to fill a vacancy caused by the death, resignation, or removal of a director prior to the expiration of the term of such director shall be appointed only for the remainder of such term. The Board of Directors shall select a chairman and a vice chairman from among the members of the Board. The Chairman shall receive compensation at the rate of \$17,500 per annum and the Vice Chairman at the rate of \$16,000 per annum. The other members of the Board shall receive compensation at the rate of \$15,000 per annum. A majority of the membership as constituted at any time shall constitute a quorum, and vacancies in the membership shall not affect the power of the remaining members to execute the functions of the Board.

## CORPORATE POWERS

Sec. 8. The Corporation shall have power to adopt, alter, and use a corporate seal, which shall be judicially noticed; to make contracts; to lease such real estate as may be necessary for the transaction of its business; to accept gifts or contributions or services, money or property, real or personal; to sue and be sued, to complain and defend, in any court of competent jurisdiction, State or Federal; to select, employ, and fix the compensation in accordance with the civil-service laws and regulations and the Classification Act of 1923, as amended, of such officers, employees, attorneys, and agents as shall be necessary for the transaction of the business of the Corporation; to define their authority and duties, require bonds of them and fix the penalties thereof, and to dismiss at pleasure such officers, employees, attorneys, and agents; and to prescribe, amend, and repeal, by its Board of Directors, bylaws, rules, and regulations governing the manner in which its general business may be conducted and the powers granted to it by law may be exercised and enjoyed, including provision for such committees and the functions thereof as the Board of Directors may deem necessary for facilitating its business under this Act. The Board of Directors of the Corporation shall determine and prescribe the manner in which its obligations shall be incurred and its expenses allowed and paid. The Corporation shall be entitled to the free use of the United States mails in the same manner as the executive departments of the Government. The Corporation, with the consent of any board, commission, independent establishment, or executive department of the Government, including any field service thereof, or by

direction of the President, may avail itself of the use of information, services, facilities, officers, and employees thereof in carrying out the provisions of this Act.

#### DEPOSIT OF CORPORATE FUNDS

SEC. 9. All moneys of the Corporation not otherwise employed may be deposited with the Treasurer of the United States subject to check by authority of the Corporation or in any Federal Reserve bank, or may, by authorization of the Board of Directors of the Corporation, be used in the purchase for redemption and retirement of any notes, debentures, bonds, or other obligations issued by the Corporation, and the Corporation may reimburse such Federal Reserve bank for its services in such manner as may be agreed upon. The Federal Reserve banks are authorized and directed to act as depositaries, custodians, and fiscal agents for the Corporation in the general performance of its powers conferred by this Act.

#### OBLIGATIONS OF THE CORPORATION

SEC. 10. The Corporation is authorized and empowered, with the approval of the Secretary of the Treasury, to issue, and to have outstanding at any one time in an amount aggregating not more than ten times the amount of its authorized capital stock, its notes, debentures, bonds, or other such obligations; such obligations to mature not more than twenty years from their respective dates of issue, to be redeemable at the option of the Corporation before maturity in such manner as may be stipulated in such obligations, and to bear such rate or rates of interest as may be determined by the Corporation. The notes, debentures, bonds, and other obligations of the Corporation may be secured by assets of the Corporation in such manner as shall be prescribed by its Board of Directors. Such obligations may be issued in payment of any loan authorized by this Act or may be offered for sale at such price or prices as the Corporation may determine with the approval of the Secretary of the Treasury. The said obligations shall be fully and unconditionally guaranteed both as to interest and principal by the United States and such guaranty shall be expressed on the face thereof. In the event that the Corporation shall be unable to pay upon demand, when due, the principal of or interest on notes, debentures, bonds, or other such obligations issued by it, the Secretary of the Treasury shall pay the amount thereof, which is hereby authorized to be appropriated, out of any moneys in the Treasury not otherwise appropriated, and thereupon to the extent of the amounts so paid the Secretary of the Treasury shall succeed to all the rights of the holders of such notes, debentures, bonds, or other obligations.

The Secretary of the Treasury, in his discretion, is authorized to purchase any obligations of the Corporation to be issued hereunder, and for such purpose the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds from the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under the Second Liberty Bond Act, as amended, are extended to include any purchases of the Corporation's obligations hereunder. The Secretary of the Treasury may, at any time, sell any of the obligations of the Corporation acquired by him under this section. All redemptions, purchases, and sales by the Secretary of the Treasury of the obligations of the Corporation shall be treated as public-debt transactions of the United States. Such obligations shall not be eligible for discount or purchase by any Federal Reserve bank.

#### EXEMPTION FROM TAXATION

SEC. 11. The Corporation, including its franchise, its capital, reserves, and surplus, and its income shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority; except that any real property of the Corporation shall be subject to State, Territorial, county, municipal, or local taxation to the same extent according to its value as other real property is taxed.

#### FORMS FOR OBLIGATIONS

SEC. 12. In order that the Corporation may be supplied with such forms of notes, debentures, bonds, or other such obligations as it may need for issuance under this Act, the Secretary of the Treasury is authorized to prepare such

forms as shall be suitable and approved by the Corporation, to be held in the Treasury subject to delivery, upon order of the Corporation. The engraved plates, dies, bed pieces, and so forth, executed in connection therewith shall remain in the custody of the Secretary of the Treasury. The Corporation shall reimburse the Secretary of the Treasury for any expenses incurred in the preparation, custody, and delivery of such notes, debentures, bonds, or other obligations.

#### DEPOSITARY OF PUBLIC FUNDS

SEC. 13. When designated for that purpose by the Secretary of the Treasury, the Corporation shall be a depository of public money, except receipts from customs, under such regulations as may be prescribed by said Secretary; and it may also be employed as a financial agent of the Government; and it shall perform all such reasonable duties, as depository of public money and financial agent of the Government, as may be required of it. Obligations of the Corporation shall be lawful investments and may be accepted as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof.

#### INTERDEPARTMENTAL COMMITTEE

SEC. 14. (a) There is hereby created an Interdepartmental Committee on Veterans' Economic Development, which shall be composed of a representative of each of the following Government agencies designated by the head thereof: The Department of State, the Department of the Interior, the Department of Agriculture, the Department of Commerce, the Department of Labor, the Veterans' Administration, the War Assets Administration or its successor, and the Reconstruction Finance Corporation and such other departments or agencies as may be designated by the President. It shall be the duty of the Committee to consult with and advise the Board of Directors, as the Board of Directors may from time to time request, upon matters relating to the exercise of the functions of the Corporation.

(b) The Board of Directors is authorized to appoint and consult with an advisory council to be composed of representatives of groups having an interest in the education, training, rehabilitation, or employment of veterans, including representatives of industry, labor, agriculture, education, and veterans' organizations. Members of the Advisory Council shall receive compensation at the rate of \$25 per diem for each day spent in meetings of the Council and shall be reimbursed for all necessary traveling, subsistence, and other expenses incurred while engaged in the business of the Council.

#### REPORTS TO CONGRESS

SEC. 15. The Corporation shall make and publish a quarterly report of its operations to the Congress stating the aggregate loans made to each of the classes of borrowers provided for and the number of borrowers by States in each class, and showing the assets and liabilities of the Corporation.

#### SEPARABILITY CLAUSE

SEC. 16. If any provision of this Act, or the application of such provision to any person or circumstance, is held invalid, the remainder of this Act or the application of such provision to persons or circumstances other than those as to which it is held invalid, shall not be affected thereby.

#### RESERVATION OF RIGHT TO ALTER, AMEND, OR REPEAL

SEC. 17. The right to alter, amend, or repeal this Act is hereby expressly reserved.

[S. 2943, 81st Cong., 2d sess.]

A BILL To liberalize the lending policies of the Reconstruction Finance Corporation and of the Federal Reserve Banking System in favor of independent small business enterprises; to adjust the registration provisions of the Securities Exchange Act, as amended, in order to enable independent small business concerns to issue securities at a reasonable cost; to develop the productive facilities of the national economy; to further the interest of independent small business enterprises; to provide for the appointment of a Small Business Coordinator; and for other purposes

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That (a) there is hereby established in the

Executive Office of the President a Small Business Coordinator (hereinafter called the "Coordinator") who shall be appointed by the President, by and with the advice and consent of the Senate, and shall receive compensation at the rate of \$15,000 per annum.

(b) The Coordinator shall assist the President in the coordination of the activities of the executive agencies in furtherance of the interests of independent small business concerns and perform such other functions pursuant to this Act as the President may designate. For this purpose the Coordinator shall make or cause to be made such studies, require such reports and information from executive agencies, and consult with such representatives of industry, agriculture, labor, consumers, State and local governments, and other groups, as he deems necessary.

(c) To the fullest extent practicable, the Coordinator shall utilize the facilities and personnel of other executive agencies. Within the limits of funds which may be made available, he may employ and fix the compensation of such officers and employees, and may make such expenditures for supplies, facilities, and services as may be necessary to carry out his functions. The Coordinator may appoint not to exceed six deputies, specialists, or other experts without regard to the civil-service laws and may fix their compensation without regard to the Classification Act of 1949, except that one such person shall be compensated at a rate of not to exceed \$14,000 per annum and five such persons shall be compensated at rates of not to exceed \$12,000 per annum. All other officers and employees shall be appointed in accordance with the civil-service laws and their compensation fixed in accordance with the Classification Act of 1949.

(d) To the fullest extent practicable, the Coordinator shall utilize the facilities of small business advisory boards created to assist and counsel Federal agencies, and he may utilize the services of Federal, and, with their consent, State, regional, and local agencies, and utilize such voluntary and uncompensated services as may from time to time be needed.

SEC. 2. The Coordinator shall have power, and he is hereby directed, whenever and to the extent that he determines such action to be necessary—

(1) to make, or arrange with the Bureau of the Census, or such other governmental agency as may be possessed of the necessary personnel and facilities for the making of, a complete study of all productive facilities for the making of, a complete study of all productive facilities of independent small business enterprises in the United States which may be used for national defense, the needs of the Federal Government or civilian purposes; and to develop a definite criterion based upon census statistics and other data to determine what is a small business enterprise, and recommend to the Congress the enactment of a clear definition of small business that will be uniformly interpreted by all the executive agencies;

(2) to direct the attention of officers of the Government having procurement powers to the potential productive capacity of small business concerns and to supervise the awarding of bids in all departments of the Government, including the Military Establishment, in order to ensure that independent small business concerns receive a fair share of such awards, and to recommend to the Congress remedial legislation to correct any inadequacy in the present laws relating to the protection of the interests of small business enterprises;

(3) to take such action as will result in the granting of such Government contracts to small business concerns operating small plants as will provide them with a sufficient incentive to engage in production for the national defense and Government procurement, thereby eventually lowering the per unit cost to the Government; and

(4) to certify to procurement officers of the Military Establishment or other procurement officers with respect to the competency, or the capacity and credit, of any small business concern or group of such concerns to perform a specific Government procurement contract, and such procurement officers are directed to accept such certification as conclusive, and are authorized notwithstanding the provisions of any other law, to let such Government procurement contract to such concern or group of concerns without requiring it to meet any other requirements with respect to competency, capacity, and credit, such as the furnishing of performance bonds.

SEC. 3. The Coordinator is hereby directed to consult with the various Federal, State, and local agencies and with independent small business enterprises and associations thereof with a view to recommending to the Congress appropriate

legislation designed to further the interests of independent small business enterprises including, but not limited to, the following subjects:

(1) The offering of more liberal terms through the Reconstruction Finance Corporation in respect to loans to independent small business enterprises, in order to equalize the credit opportunities of such enterprises in competition with large business (such liberalization taking the form, for instance, of allowing expected profits from a Government contract to be considered as prime collateral for a loan in the case of an independent small business enterprise needing such a loan for its development or maintenance);

(2) The adaptation of section 13b of the Federal Reserve Act to the present credit needs of independent small business enterprises;

(3) The adjustment of the Securities Exchange Act and regulations to the problems of independent small business enterprises which are unduly retarded in their development or growth by present policies, without a sacrifice of the interests of investors;

(4) The revamping of the Federal income tax structure in order to encourage the growth and successful development of independent small business enterprises;

(5) The development of a system of Government insurance of exports at reasonable rates to relieve independent small business enterprises of the financial hardship caused by the shortage of dollars in foreign countries;

(6) The formulation of a program, such as by ear-marking a certain percentage of all appropriations for the procurement of supplies for independent small business concerns, or by earmarking certain objects more readily produced by independent small business organizations to be procured therefrom, or by requiring the preparation of requests for bids in amounts within the productive capacity of independent small business enterprises, or by any other means, to ensure that independent small business enterprises will receive a fair share of all Government procurement.

The Coordinator shall promote the adoption of policies by the executive departments designed to encourage the growth and development of independent small business enterprises consistently with our traditional national system of free enterprise, and he shall recommend to the Congress the enactment of specific legislation to accomplish this result. While the Congress is determined to ensure that independent small business enterprises obtain a fair share of Government contracts, the Congress is fully aware of the fact that the eventual success of independent small business enterprises is dependent upon their ability to compete in the market place and that the Government should confine its endeavors to the removal of the barriers which impede the efforts of small business enterprises to compete fairly and equitably with larger business enterprises of equal benefit to the national welfare.

SEC. 4. The Coordinator shall make a report every ninety days of his operations under this Act to the President, the President of the Senate, and the Speaker of the House of Representatives. Such report shall include such information, and such comments and specific recommendations for legislation, with respect to the relation of independent small business concerns to the national economy as the Coordinator may deem advisable.

SEC. 5. There is hereby authorized to be appropriated such funds as may be necessary to carry out the functions of this Act.

SEC. 6. If any provision of this Act or the application of such provision to any person or circumstances shall be held invalid, the validity of the remainder of the Act and the applicability of such provision to other persons or circumstances shall not be affected thereby.

---

[S. 2947, 81st Cong., 2d sess.]

**A BILL** To amend the Reconstruction Finance Corporation Act, as amended, in order to provide more effective financial assistance for small business

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That subsection (b) (1) of section 4 of the Reconstruction Finance Corporation Act, as amended, is hereby amended by striking out the period at the end thereof and inserting a colon and the following: "Provided, That in order to encourage small business the Corporation is authorized to give management skills, past earnings, and prospective earnings consideration over security in the form of collateral, in the making of loans either directly or in cooperation with banks or other lending institutions under para-

graph (1) of subsection (a) of this section for the purpose of establishing new business enterprises or for meeting the long-term capital requirements of existing small business enterprises. The Corporation shall make direct loans pursuant to the foregoing proviso only in those cases where loans cannot be consummated in cooperation with banks or other lending institutions."

SEC. 2. Subsection (b) (2) of section 4 is amended by adding before the period at the end of the first sentence thereof a colon and the following: "*Provided further*, That any loan made under section 4 (a) (1) for the purposes set forth in the proviso in paragraph (1) of this subsection as amended may be made for such period exceeding ten years as the Corporation may deem proper for the encouragement of small business".

SEC. 3. Subsection (b) (3) of section 4 is amended by striking out the period at the end thereof and inserting a colon and the following: "*Provided*, That such participations by the Corporation may amount to 90 per centum of the loan outstanding at the time of the disbursement, in the case of loans made for the benefit of small business enterprises in pursuance of the authority set forth in the proviso in subsection (b) (1) of this section as amended. In order to encourage loans in cooperation with banks or other lending institutions under the proviso in subsection (b) (1) of this section as amended, priority shall be given to private lending institutions over the Corporation against the assets of borrowers for the satisfaction of such loans made thereunder."

[S. 2975, 81st Cong., 2d sess.]

A BILL To establish corporations to assist financial institutions in making credit available to commercial and industrial enterprises and to provide capital for such enterprises

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That section 13b of the Federal Reserve Act is amended to read as follows:

"SEC. 13b. 1. PURPOSES.—The purposes of this section, in the light of which its provisions shall be construed and applied are—

"(a) to foster competition in the growth and development of small and independent enterprises of economic and social value by providing intermediate and long-term credit and capital to small and independent business enterprises that are unable to obtain such capital from the usual banking or other financial sources on reasonable terms and conditions, where repayment or retirement of such credit or capital may reasonably be expected on the basis of prospective earnings, and a market exists for the products or services of such enterprises;

"(b) the Board of Governors of the Federal Reserve System in cooperation with the Secretary of Commerce shall, in accordance with the provisions of this paragraph, determine the class or classes of small and independent business enterprises which are eligible for financial aid under this section. In determining whether an enterprise is a small or an independent business enterprise for the purposes of this section, there shall be considered the relative size and position of the business in relation to the trade or industry in which it is engaged, the size and nature of the area of its operation, the size and independence of the group supplying capital or holding ownership or control of the business, and the independence of its management; and no enterprise shall be considered to be a small or independent business enterprise which is affiliated through stock ownership or otherwise with any other enterprise in the same trade or industry which is determined to be dominant in the trade or business in which it is engaged;

"(c) to establish privately owned corporations within the Federal Reserve System, subject to the supervision of the Board of Governors of the Federal Reserve System, with authority to make loans and to provide capital to enterprises eligible therefor under the provisions of this section; and

"(d) to encourage the growth of local industrial development corporations formed for the purpose of supplying venture capital for the development of new and useful products, services, or techniques by providing for limited financial participation in such corporations.

"2. CORPORATIONS AUTHORIZED TO MAKE LOANS AND INVEST IN SECURITIES OF SMALL AND INDEPENDENT BUSINESS.—(a) Corporations, not exceeding in number the total number of Federal Reserve banks and branches thereof, organized for the purpose of operating under this section, may be formed by any number of persons, but not less than five, and each of such persons shall be bona fide subscribers for shares in the corporation. Such persons shall enter into articles

of association which shall specify the general terms and objects for which the corporation is formed and which may contain any other provisions not inconsistent with this section that the corporation may see fit to adopt for the regulation of its business and the conduct of its affairs.

"(b) Such articles of association shall be signed by all the persons intending to participate in the organization of the corporation and shall be forwarded to the Board of Governors of the Federal Reserve System which shall file and preserve said articles in its office. Such articles of association shall specifically state—

"first, the name assumed by such corporation, which shall be subject to the approval of the Board of Governors of the Federal Reserve System;

"second, the place or places where its operations are to be carried on;

"third, the place where its principal office is to be located, which shall be within the Reserve district in which it is established;

"fourth, the amount of its capital stock and the number and classes of shares into which the same shall be divided, all of which shares shall have equal voting rights;

"fifth, the names and places of business or residence of the persons executing the articles of association and the number of shares to which each has subscribed; and

"sixth, the fact that the articles of association are made to enable the persons subscribing the same, and all other persons, firms, companies, and corporations, who or which may thereafter subscribe to or purchase shares of the capital stock of such corporation, to avail themselves of the provisions of this section.

"(c) The persons signing the articles of association shall duly acknowledge the execution thereof before a judge of some court of record or a notary public. Such articles shall be subject to approval by the Board of Governors of the Federal Reserve System with the advice of the Secretary of Commerce. If the Board of Governors of the Federal Reserve System approves the articles of association, it shall issue a permit to begin business and the corporation shall thereafter become and be a body corporate, and, as such and in the name designated therein, shall have power to adopt and use a corporate seal; to have succession for a period of thirty years unless sooner dissolved by the act of the shareholders owning two-thirds of the stock or by an Act of Congress or unless its franchise becomes forfeited by some violation of law; to make contracts; to sue and be sued, complain, and defend in any court of law or equity; to elect or appoint directors as provided in this section, all of whom shall be citizens of the United States; and, by its board of directors, to appoint such officers and employees as may be deemed proper, define their authority and duties, require bonds of them, and fix the penalty thereof, dismiss such officers or employees, or any thereof, at pleasure and appoint others to fill their places; to adopt bylaws regulating the manner in which its stock shall be transferred, its directors elected or appointed, its officers and employees appointed, its property transferred, and the privileges granted to it by law exercised and enjoyed; and shall have the other powers set forth in this section.

"(d) The board of directors of each corporation organized under this section shall consist of nine (9) members, of which three shall be appointed from the public by the Federal Reserve bank of the district in which the corporation has its principal office, with the approval of the Board of Governors of the Federal Reserve System, and six by the holders of the capital shares of the corporation authorized and issued under the provisions of this section: *Provided*, That the holders of each class of shares shall have the right to elect directors in proportion to the number of each such class of shares issued and outstanding to the total number of shares of all classes, but not less than one (1) director shall be elected by each class of stock. Not more than one director of a Federal Reserve bank may also be a director of a corporation in which such bank is a shareholder.

"3. CAPITAL STOCK PROVISIONS—BORROWING POWER.—(a) Shares of stock in the corporation shall be eligible for purchase by member banks of the Federal Reserve System, and in order to facilitate the organization of corporations under this section, the Federal Reserve banks may purchase and hold such shares, as herein provided, until acquired by member banks. Each member bank is hereby authorized, notwithstanding any other provisions of law, to acquire and hold an amount of such shares equal to 1 per centum of the capital and surplus of each member bank. Each Federal Reserve bank is hereby authorized, notwithstanding any other provision of law, to acquire and hold an amount of such shares not exceeding 1 per centum of the aggregate of the capital and surplus of



all its member banks, but such Reserve bank shall, at the request of any member bank, and under regulations prescribed by the Governors of the Federal Reserve System, sell to such member bank the shares which the member bank is eligible to own: *Provided*, That no member bank shall own shares in more than one such corporation organized under this section.

"(b) Shares of stock in the corporation may be purchased by any nonmember bank, or by any financial institution, corporation, or individual, and the total number of shares which may be so purchased shall be determined by the corporation subject to the approval of the Governors of the Federal Reserve System: *Provided*, That no nonmember bank, financial institution, corporation, or individual shall at any time own shares in more than one such corporation organized under this section, nor more than 10 per centum of the total outstanding shares of any such corporation.

"(c) Each corporation organized under this section shall have authority to borrow money and to issue its debentures, bonds, promissory notes or other evidences of indebtedness under such general conditions as to security and such limitations as the Board of Governors of the Federal Reserve System may prescribe, but in no event shall such corporation have liabilities outstanding at any one time exceeding the total amount of its paid in capital stock and surplus. Each member bank is hereby authorized, notwithstanding any other provision of law, to hold an amount of any debentures, bonds, promissory notes, or other evidences of indebtedness issued by the corporation under this section equal to 10 per centum of the capital and surplus of such member bank.

"(d) No permit to begin business shall be issued by the Board of Governors of the Federal Reserve System to any corporation organized under this section unless the paid in capital and surplus of such corporation shall equal \$1,000,000 or more.

"4. INSURANCE AND INVESTMENT AUTHORITY.—(a) Subject to such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe, and as provided in this paragraph—

"(1) the corporation may insure banks against losses which they may sustain as a result of loans to or purchases of obligations representing loans to small or independent business enterprises as defined in paragraph 1 (b) of this section and eligible therefor. In no case shall insurance underwritten by the corporation under this paragraph exceed 10 per centum of the total amount of such loans or purchases of an insured bank, nor shall such insurance exceed 95 per centum of the aggregate amount of loans to or obligations of any one small or independent business enterprise. In addition to such insurance conditions as the Board of Governors of the Federal Reserve System, the corporation, or both, may prescribe—

"(A) not more than \$10,000 of loans or obligations of one small-business enterprise may be insured;

"(B) no insured loan or obligation shall be for a period longer than five years;

"(C) the rate of insurance premium and the interest rate on insured loans or obligations shall be fixed by the Board of Governors of the Federal Reserve System;

"(D) no audits or appraisals shall be required on insured loans or obligations but banks shall certify to the borrower's good personal and business reputation notwithstanding a lack of commercial assets, collateral, or security;

"(2) the corporation shall have authority to make loans with or without security to both small and independent business enterprises as defined in paragraph 1 (b) of this section, which are eligible therefor, or to purchase obligations of such enterprises, provided that applications for loans or purchases under this section shall be initiated through member banks or other banks or financial institutions cooperating with the corporation. Such loans or purchases may be made either directly or in cooperation with such banks or other lending institutions, through agreements to participate or by the purchase of participations, or otherwise, as the corporation may determine. Obligations acquired by the corporation under the provisions of this paragraph shall be for periods not exceeding twelve years, and no obligations maturing more than twelve years from the date of acquisition by the corporation may be acquired under this paragraph;

"(3) the corporation shall have authority to purchase common or preferred stocks, income bonds, or other capital shares of small and independent

business eligible therefor under this section, provided that the amount invested by the corporation in such securities shall not exceed 20 per centum of the combined capital and surplus and authorized indebtedness of the corporation; and

"(4) the corporation shall have authority to purchase the capital shares of local industrial development corporations formed for the purpose of supplying venture capital for the introduction of new and useful products, services, or techniques, up to 5 per centum of its capital and surplus.

"(b) The aggregate amount of obligations or securities acquired or for which commitments may be issued by the corporation under the provisions of this section which exceed the sum of \$250,000 for any single enterprise eligible under the provisions of this section shall not exceed 25 per centum of the combined capital and surplus and authorized indebtedness of the corporation.

"(c) The loans of any national banking association which are insured under this paragraph or which are purchased by the corporation or for which a commitment to purchase is issued hereunder shall not be subject to the limitations of section 24 of the Federal Reserve Act as amended, purchases of loans, or commitments to purchase, shall not be subject to the limitations of section 5200 of the Revised Statutes, as amended.

"5. MISCELLANEOUS PROVISIONS.—(a) The provisions of the Securities Act of 1933, as amended, shall not apply to any shares or obligations issued by the corporation nor to the issuance of shares or other capital subscriptions of any small or independent business enterprise which are acquired by the corporation under the provisions of this section, nor to transactions by any person in connection with any acquisition by the corporation of obligations or shares or any commitment to acquire them, nor subsequent to such acquisition, to any further sale, exchange or other disposition by any person.

"(b) The corporation, its franchise, loans, and other assets, its capital stock, its surplus, its reserves, and its income, shall be exempt for a period of fifteen years from the date of its charter from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or other taxing authority; except that any real property of the corporation shall be subject to State, Territorial, county, municipal, or local taxation to the same extent according to its value as other real property is taxed.

"(c) Wherever possible the financing operations of the corporation shall be undertaken in cooperation with member banks of the Federal Reserve System or with other banks or financial institutions located where the applicant ordinarily carries on its business, and any initial investigation and servicing required for loans or purchases of securities by the corporation under the provisions of this section shall be handled through banks or other financial institutions on a fee basis.

"(d) The corporation shall make use, wherever possible, of the facilities of the Federal Reserve System, and of the Department of Commerce, which are available for and useful to industrial and commercial businesses, and shall provide consulting and advising services on a fee basis, and shall have on its staff persons competent to provide such services. Subject to the supervision and direction of the Board of Governors of the Federal Reserve System any Federal Reserve bank is authorized to act as a depository or fiscal agent for any corporation organized under this section. Every corporation organized under this section shall make annual reports of its operations to the Board of Governors of the Federal Reserve System in such form as the Board of Governors shall prescribe.

"(e) Every agreement to insure or to make a loan to or purchase the obligation of a small or independent business enterprise eligible therefore under this section, and every agreement to purchase common or preferred stocks, income bonds, or other capital shares of such enterprises shall provide that any such loan or obligation shall become immediately due and payable, and that any such shares shall become immediately redeemable, if such enterprise shall, by reason of the sale of its stock, or assets, or otherwise, fail to qualify as a small or independent business as defined in paragraph 1 hereof; and no financial aid shall be provided under this section which would lessen competition in any trade or industry."

[S. 2975, 81st Cong., 2d sess.]

**AMENDMENT** (in the nature of a substitute) Intended to be proposed by Mr. O'Mahoney to the bill (S. 2975) to establish corporations to assist financial institutions in making credit available to commercial and industrial enterprises and to provide capital for such enterprises, viz: Strike out all after the enacting clause and insert in lieu thereof the following:

That section 13b of the Federal Reserve Act is amended to read as follows:

"SEC. 13b. 1. **PURPOSE.**—The general purpose of this section, as amended, in the light of which its provisions shall be construed and applied, is to provide a means for supplementing the existing financial activities of banks and other financial institutions by the establishment of one or more regional investing corporations, privately owned and managed, their formation to be facilitated by authorizing the purchase of their capital stock by the Federal Reserve banks with a view to the ultimate disposal of such capital stock by the Federal Reserve banks to member banks of the Federal Reserve System and to other private investors. Such corporations shall be authorized to invest in and insure loans to both small and independent business enterprises organized upon sound business principles which supply an economically useful product or service, where the investment in or the insurance of loans to such enterprises will promote their growth and expansion.

"2. **SMALL-BUSINESS ADVISORY COUNCIL.**—(a) There is hereby established a Small-Business Advisory Council, hereinafter called the 'Council', which shall consist of the Secretary of the Treasury, the Secretary of Commerce, who shall be Chairman of the Council, and the Chairman of the Board of Governors of the Federal Reserve System. The Council, which shall meet on the call of its Chairman, may advise and consult with the Board of Governors of the Federal Reserve System and make recommendations to that Board from time to time with respect to the operations of the corporations organized under this Act and the administration of the provisions of this section.

"3. **ELIGIBLE ENTERPRISES.**—The Board of Governors of the Federal Reserve System, hereinafter called the 'Board', after consultation with the Secretary of Commerce, shall promulgate standards to determine the eligibility of small or independent business enterprises for the purposes of this section. In promulgating such standards, which may differ according to the types of financing or other relevant factors, there shall be considered the relative size and position of businesses in relation to the trade or industry in which they are engaged, the size and nature of the area of their operations, the size and independence of the group supplying capital or holding ownership or control of the business, and the independence of their management; and no enterprise shall be considered to be a small or an independent business enterprise which is affiliated through stock ownership or otherwise with any other enterprise which is determined to be dominant in the trade or industry or field of business in which it is engaged, unless such other enterprise otherwise qualifies as a small or independent business enterprise under this section.

"4. **ORGANIZATION OF CORPORATIONS.**—(a) Corporations, not exceeding in number the total number of Federal Reserve banks and branches thereof, organized for the purpose of operating under this section, may be organized by any number of persons not less than five, who shall subscribe to the articles of incorporation; except that any such corporation in whose stock one or more Federal Reserve banks invest shall be formed by a Federal Reserve bank, which alone shall subscribe to the articles of incorporation. The articles of incorporation of such corporation shall specify in general terms the objects for which the corporation is formed and may contain any other provisions not inconsistent with this section that the corporation may see fit to adopt for the regulation of its business and the conduct of its affairs, including provision for cumulative voting in the election of directors. Such articles shall be subject to the approval of the Board of Governors of the Federal Reserve System, and with such approval may be amended from time to time. Articles of incorporation and amendments thereto shall be forwarded to the Board of Governors for consideration and approval or disapproval. Such articles shall specifically state—

"first, the name assumed by such corporation;

"second, the area or areas where its operations are to be carried on, which may be anywhere within the United States, its Territories and island possessions, but as long as any of its stock is owned by any Federal Reserve

bank, the Board may restrict the area of its operations to the Federal Reserve district in which its head office is located;

"third, the place where its principal office is to be located, which shall be within the Federal Reserve district in which it is established; and

"fourth, the amount of its capital stock and the number and classes of shares into which the same shall be divided, with or without par value, and the respective participations of such shares in the profits of the corporation.

"(b) In determining whether to approve the establishment of such a corporation and its proposed articles of incorporation, the Board of Governors shall give due regard, among other things, to the need for the financing of small and independent business enterprises in the place or places where the proposed corporation is to commence operations, the general character of the proposed management of such corporation, the number of such corporations previously organized in the United States, and the volume of their operations. After consideration of all relevant factors, the Board of Governors may approve the articles of incorporation and issue a permit to begin business. Upon issuance of such a permit, the corporation shall thereafter become and be a body corporate and, as such, and in the name designated therein, shall have power to adopt and use a corporate seal; to have succession for a period of thirty years, unless extended as provided in this section, or unless sooner dissolved by the act of the shareholders owning two-thirds of the stock or by an Act of Congress or unless its franchise becomes forfeited by some violation of law; to make contracts; to sue and be sued; complain, and defend in any court of law or equity; by its board of directors, to appoint such officers and employees as may be deemed proper, define their authority and duties, require bonds of them as it deems advisable, and fix the penalty thereof, dismiss such officers or employees, or any thereof, at pleasure and appoint others to fill their places; to adopt bylaws regulating the manner in which its stock shall be transferred, its officers and employees appointed, its property transferred, and the privileges granted to it by law exercised and enjoyed; to establish branch offices or agencies subject to the approval of the Board; to acquire, hold, operate, and dispose of any property (real, personal, or mixed) whenever necessary or appropriate to the carrying out of its lawful functions; to act as depository or fiscal agent of the United States when so designated by the Secretary of the Treasury; to operate in such Federal Reserve district or districts or Territories or possessions of the United States as may be specified in its articles of incorporation; and shall have the other powers set forth in this section and such incidental powers as may be reasonably necessary to carry on the business for which the corporation is established.

"(c) The board of directors of each corporation organized under this section shall consist of nine members, all of whom shall be elected annually by the holders of the shares of stock of the corporation authorized and issued under the provisions of this section. Subject to the provisions of this section the directors of any corporation organized under this section shall have wide discretion in directing the affairs of such corporation to carry out the purposes of this section.

"5. CAPITAL STOCK PROVISIONS.—Each corporation organized under this section shall have a paid-in capital and surplus equal to at least \$5,000,000 before it shall commence business. Each Federal Reserve bank which organizes a corporation under this section shall invest in shares of stock of such corporation in an amount equal to at least \$5,000,000, or an amount which, when added to the amounts, if any, of shares subscribed by other Federal Reserve banks, member banks, non-member banks, financial institutions, corporations, partnerships, or other persons, shall equal the sum of \$5,000,000; and each Federal Reserve bank is hereby authorized, notwithstanding any other provisions of law, to invest in the shares of stock of one or more corporations organized under this section: *Provided*, That in no event shall any Federal Reserve bank invest in shares of corporations organized under this Act if as a result thereof it will hold an amount of such shares aggregating more than 2 per centum of the aggregate amount of the combined capital and surplus of all its member banks, or \$5,000,000, whichever is greater. The shares of stock in any corporations organized under this Act shall be eligible for purchase by member banks of the Federal Reserve System, and each such member bank is hereby authorized, notwithstanding any other provision of Federal law, to acquire and hold an amount of such shares equal to not more than 2 per centum of the capital and surplus of such member bank. Subject to the provisions of this section, any nonmember bank, financial institution, corporation, partnership, or other person may acquire shares of stock in any corporations organized under this Act. Upon the demand of any member bank, a Federal Reserve bank which holds shares of stock in a corporation or-

ganized under this Act shall, with the approval of the Board of Governors, sell to such member bank all or a portion of such shares up to the amount which such member bank is authorized to acquire and hold under the provisions of this paragraph; and a Federal Reserve bank holding such shares of stock may, with the approval of the Board of Governors, sell such shares to any nonmember bank, financial institution, corporation, partnership, or to any other person. The price at which such shares may be sold by a Federal Reserve bank under this paragraph shall be subject to the approval of the Board of Governors. The aggregate amount of shares in any such corporation or corporations which may be owned or controlled by any member bank, by any nonmember bank, financial institution, corporation, partnership, or by any other person, or by any group or class of persons, may be limited by the Board in accordance with its general policies; and no one stockholder, other than a Federal Reserve bank, shall at any time, without the approval of the Board in accordance with such policies, own or control more than 10 per centum of the total outstanding shares of any such corporation.

"6. **BORROWING POWER.**—Each corporation shall have authority to borrow money and to issue its debentures, bonds, promissory notes, or other obligations under such general conditions and subject to such limitations and regulations as the Board of Governors may prescribe, but in no event shall any such corporation issue obligations which would cause the amount outstanding at any one time to exceed the amount of its paid-in capital stock and surplus. Notwithstanding any limitation contained in section 5136 of the Revised Statutes, each member bank is authorized to purchase and hold obligations of corporations organized under this section in an aggregate amount not exceeding 10 per centum of such bank's capital and surplus.

"7. **INSURANCE OF SMALL LOANS.**—(a) The corporation is authorized to insure financial institutions against losses which they may sustain as a result of loans (which shall include purchases of obligations representing loans) to enterprises eligible therefor under this section: *Provided, That*—

"(1) in no case shall insurance underwritten by the corporation for any financial institution exceed 10 per centum of the total amount of the eligible loans made by such institution within such period as the Board of Governors may by regulation prescribe, and such insurance shall not exceed at any one time 95 per centum of the aggregate amount of such loans to any one small or independent business enterprise by such insured financial institution which are outstanding;

"(2) the aggregate principal amount of loans to one small or independent business enterprise insured hereunder shall not exceed \$10,000 outstanding at any one time;

"(3) no insured loan shall be for a period longer than five years and thirty-two days; and

"(4) the rate of insurance premium, and the interest rate on insured loans, shall be in accord with regulations prescribed by the Board of Governors.

"8. **DIRECT LOANS.**—The corporation shall have authority to make or acquire loans with or without security to both small and independent business enterprises which are eligible therefor, or to purchase obligations of such enterprises. Such loans, purchases, or other acquisitions may be made either directly or in cooperation with banks or other lending institutions, through agreements to participate or by the purchase of participations, commitments to purchase, or otherwise, as the corporation may determine.

"9. **EQUITY FINANCING.**—The corporation shall have authority to purchase and to resell to the issuer or to others, the income debentures, common or preferred stocks, or other capital shares of small and independent business enterprises eligible under this section.

"10. **AGGREGATE LIMITATION.**—Without the approval of the Board of Governors, the aggregate amount of obligations or securities acquired or for which commitments may be issued by the corporation under the provisions of this section which exceed the sum of \$300,000 for any single enterprise shall not exceed 33¼ per centum of the combined capital and surplus and maximum indebtedness of the corporation authorized by this section.

"11. **EXEMPTIONS.**—(a) The loans of any national banking association which are insured under this section or which are purchased by the corporation or for which a commitment to purchase is issued hereunder shall not be subject to the limitations on real estate loans prescribed in section 24 of the Federal Reserve Act as amended.

"(b) Paragraph (2) of subsection (a) of section 3 of the Securities Act of 1933, as amended, is hereby amended by adding at the end of such paragraph the following: 'or any security issued by or representing an interest in or a direct obligation of a corporation organized under section 13b of the Federal Reserve Act, as amended;'. Paragraph (3) of subsection (c) of section 3 of the Investment Company Act of 1940, as amended, is hereby amended by changing the period at the end of such paragraph to a semicolon and adding the following: 'or any corporation organized under section 13b of the Federal Reserve Act, as amended'. Paragraph (4) of subsection (a) of section 304 of the Trust Indenture Act of 1939 is hereby amended by changing the semicolon at the end of such paragraph to a comma and adding the following: 'or any security issued by or representing an interest in or a direct obligation of a corporation organized under section 13b of the Federal Reserve Act, as amended;'.

"(c) The corporation, its franchise, loans, and other assets, its capital stock, its surplus, its reserves, and its income, shall be exempt for a period of fifteen years from the date of its charter from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or other taxing authority; except that any real property of the corporation shall be subject to State, Territorial, county, municipal, or local taxation to the same extent according to its value as other real property is taxed.

"12. MISCELLANEOUS.—(a) Wherever practicable the financing operations of the corporation shall be undertaken in cooperation with member banks of the Federal Reserve System or with other banks or financial institutions, and any initial investigation and servicing required for loans or purchases of securities by the corporation under the provisions of this section may be handled through such banks or other financial institutions on a fee basis.

"(b) The corporation may make use, wherever practicable, of the advisory services of the Federal Reserve System and of the Department of Commerce which are available for and useful to industrial and commercial businesses, and may provide consulting and advising services on a fee basis and have on its staff persons competent to provide such services. Subject to the supervision and direction of the Board of Governors of the Federal Reserve System any Federal Reserve bank is authorized to act as a depository or fiscal agent for any corporation organized under this section. Such corporations may invest funds not reasonably needed for their current operations in direct obligations of, or obligations guaranteed as to principal and interest by, the United States.

"(c) Each corporation shall be subject to examinations made by direction of the Board of Governors of the Federal Reserve System or by a Federal Reserve bank designated by the Board by examiners selected or approved by the Board, the cost of such examinations, including the compensation of the examiners, to be fixed by the Board and to be paid by the corporation examined; and every such corporation shall make such reports to the Board of Governors at such times and in such form as the Board may require.

"(d) Should any corporation organized hereunder violate or fail to comply with any of the provisions of this section, all of its rights, privileges, and franchises derived herefrom may thereby be forfeited. Before any such corporation shall be declared dissolved, or its rights, privileges, and franchises forfeited, any noncompliance with, or violation of this section shall, however, be determined and adjudged by a court of the United States of competent jurisdiction, in a suit brought for that purpose in the district or Territory in which the principal office of such corporation is located, which suit shall be brought by the United States at the instance of the Board of Governors of the Federal Reserve System or the Attorney General.

"(e) Any corporation organized under this section may at any time within the two years next previous to the date of the expiration of its corporate existence, by a vote of the shareholders owning two-thirds of its stock, apply to the Board of Governors for its approval to extend the period of its corporate existence for a term of not more than thirty years, and upon certified approval of the Board of Governors such corporation shall have its corporate existence for such extended period unless sooner dissolved by the act of the shareholders owning two-thirds of its stock, or by an Act of Congress or unless its franchise becomes forfeited as herein provided.

"(f) Whenever in the judgment of the Board of Governors of the Federal Reserve System any person has engaged or is about to engage in any acts or practices which constitute or will constitute a violation of any provision of

this section or of any regulation thereunder, the Board may make application to the proper district court of the United States, or the United States Courts of any Territory or other place subject to the jurisdiction of the United States, for an order enjoining such acts or practices, or for an order enforcing compliance with such provision, and such courts shall have jurisdiction of such actions and upon a showing by the Board that such person has engaged or is about to engage in any such acts or practices a permanent or temporary injunction, restraining order, or other order shall be granted without bond.

"(g) Section 1014 of title 18 of the United States Code is amended by inserting the phrase 'or a corporation organized under section 13b of the Federal Reserve Act' after the words 'Federal Reserve Bank.'

"(h) Notwithstanding this amendment to this section 13b, the Federal Reserve banks, for a period of one year following the effective date of this amendment, shall continue to possess and have the right to exercise all authority conferred upon them by the provisions of this section as it existed prior to the effective date of this amendment. Nothing herein shall affect the power of any Federal Reserve bank to carry out, or protect its interest under, any agreement or transaction heretofore or hereafter made or entered into in carrying on operations pursuant to such authority. All or part of the assets held by any Federal Reserve bank which have been or may hereafter be acquired by it pursuant to such authority may be purchased by any corporation organized under this section with the consent of such Reserve bank.

"(i) Within sixty days after the effective date of this amendment, each Federal Reserve bank shall pay to the United States the aggregate amount which the Secretary of the Treasury has heretofore paid to such bank under the provisions of this section as heretofore existing; and such payment shall constitute a full discharge of any obligation or liability of the Federal Reserve bank to the United States or to the Secretary of the Treasury arising out of subsection (e) of this section as heretofore existing or any agreement thereunder. The amount repaid to the United States pursuant to this paragraph and any remaining balance of the funds set aside in the Treasury for payments under this section as heretofore existing shall be covered into miscellaneous receipts.

"(j) Neither the United States nor any Federal Reserve bank shall have any liability with respect to any obligations entered into, or stocks issued, or commitments made, by any corporation organized under this section.

"(k) Financial assistance available to small and to independent business enterprises through corporations organized under this section shall be taken into consideration by the Reconstruction Finance Corporation in determining whether financial assistance for which application is made to it by a business enterprise is otherwise available on reasonable terms within the meaning of section 4 (b) (1) of the Reconstruction Finance Corporation Act, as amended."

---

[S. 3386, 81st Cong., 2d sess.]

A BILL To aid small business, to assist in promoting maximum employment and production, and to encourage the free flow of capital into small business enterprises

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That this Act may be cited as the "Small Business Act of 1950".

#### TITLE I—AMENDMENTS TO RECONSTRUCTION FINANCE CORPORATION ACT

SEC. 101. Subsection (a) of section 4 of the Reconstruction Finance Corporation Act, as amended, is amended by adding three new paragraphs to read as follows:

"(5) To insure banks or other lending institutions against losses which they may sustain as a result of loans to or purchases of obligations representing loans to small business enterprises. In no case shall insurance underwritten by the Corporation under this paragraph exceed 10 per centum of the total amount of such loans or purchases of an insured bank or other lending institution. In addition to such insurance conditions as may be prescribed by the Corporation—

"(A) not more than \$100,000 of loans or obligations of one small business enterprise may be insured;

"(B) no insured loan or obligation shall be for a period longer than ten years:

"(C) the rate of insurance premium and the interest rate on insured loans or obligations shall be fixed by the Corporation; and

"(D) notwithstanding a lack of commercial assets, collateral, or security, no audits or appraisals shall be required on insured loans or obligations but banks or other lending institutions shall certify to the borrower's good personal and business reputation.

"(6) To purchase, service, or sell any loans, which are insured under paragraph (5) of this subsection, but no loan may be purchased for an amount exceeding the unpaid principal balance thereof, plus accrued interest, at the time of the purchase. No loan shall be purchased unless the seller certifies that the loan is insurable under the standards prescribed for insurance of loans by the Corporation according to the provisions of paragraph (5) of this subsection. The Corporation is authorized to borrow money for the purposes of this paragraph through the issuance of notes or other such obligations. The total amount of purchases and commitments made by the Corporation under the provisions of this paragraph shall not exceed \$750,000,000 outstanding at any one time.

"(7) Subject to such limitations, restrictions, and regulations as the Corporation may prescribe, to guarantee any bank or lending institution against loss of principal or interest on, or may make a commitment to purchase and thereafter purchase from a bank or other lending institution, any loan which has a maturity of not more than fifteen years, made to a small business enterprise for the purpose of financing (A) alterations, repairs, and improvements upon or in connection with existing structures or the building of new structures upon real property by the owners thereof or by lessees of such real property under a lease expiring not less than six months after the maturity of the loan, or (B) the purchase of equipment or fixtures extends beyond the maturity of the loan, if such structures, equipment, or fixtures are not held by the small business enterprise primarily for sale to customers in the ordinary course of trade or business. The Corporation shall not guarantee or make a commitment to purchase under this paragraph more than 90 per centum of the unpaid balance of any loan. The aggregate amount of guaranties and commitments under this paragraph outstanding at any one time, together with the amount of loans acquired thereunder and held at the same time, shall not exceed \$500,000,000."

Sec. 102. Subsection (b) (1) of section 4 of the Reconstruction Finance Corporation Act, as amended, is amended by striking out the period at the end thereof and inserting a colon and the following: "*Providing*, That in order to encourage small business enterprises the Corporation is authorized to give accounts receivable, inventories, including raw materials, work in progress, and finished goods, management skills, past earnings, and prospective earnings consideration over security in the form of other types of collateral, in the making of loans either directly or in cooperation with banks or other lending institutions under paragraph (1) of subsection (a) of this section for the purpose of establishing new business enterprises or for meeting the long-term capital requirements of existing small business enterprises. The Corporation shall make direct loans pursuant to the foregoing proviso only in those cases where loans cannot be consummated in cooperation with banks or other lending institutions."

Sec. 103. Subsection (b) (2) of section 4 is amended by adding before the period at the end of the first sentence thereof a colon and the following: "*Provided further*, That any loan made under section 4 (a) (1) for the purposes set forth in the proviso in paragraph (1) of this subsection as amended may be made for such period exceeding ten years as the Corporation may deem proper for the encouragement of small business enterprises."

Sec. 104. Subsection (b) (3) of section 4 is amended by striking out the period at the end thereof and inserting a colon and the following: "*Provided*, That such participations by the Corporation may amount to 90 per centum of the loan outstanding at the time of the disbursement, in the case of loans made for the benefit of small business enterprises in pursuance of the authority set forth in the proviso in subsection (b) (1) of this section as amended. In order to encourage loans in cooperation with banks or other lending institutions under the proviso in subsection (b) (1) of this section as amended, priority shall be given to private lending institutions over the Corporation against the assets of borrowers for the satisfaction of such loans made thereunder."

Sec. 105. Subsection (g) of section 4 is amended to read as follows:

"(g) As used in this Act—

"(1) The term 'State' includes the District of Columbia, Alaska,, Hawaii, Puerto Rico, and the Virgin Islands.



"(2) The term 'small business enterprise' means any business enterprise determined to be a small business enterprise by the Small Business Coordinator in accordance with section 306 of the Small Business Act of 1950."

Sec. 103. Section 4 is amended by adding at the end thereof a new subsection to read as follows:

"(1) Those functions of the Corporation dealing with loans to and the insurance, guaranty, purchase, service, or sale of loans to small business enterprises shall be administered independently of the Board of Directors of the Corporation by a Small Business Division, which is hereby created as a division within the Corporation. The management of the Small Business Division shall be vested in a Director of such Division appointed by the President of the United States by and with the advice of the Senate. The office of Director of the Small Business Division shall be a full-time position. The term of the Director shall be for a term of three years, but he may continue in office until his successor is appointed and qualified. The Director shall receive basic compensation at the rate of \$15,000 per annum. The Director shall utilize the facilities and personnel of the Corporation to the fullest extent practicable in administering the provisions of this Act."

## TITLE II—SMALL BUSINESS PARTICIPATION IN GOVERNMENT PROCUREMENTS

Sec. 201. (a) It is the policy of Congress that a fair and substantial portion of the supplies or services purchased, or contracted for, by Government agencies shall be furnished by small business enterprises.

(b) Every Government agency which procures or contracts for supplies or services shall issue regulations and prescribe conditions to the end that small business enterprises shall receive a fair and substantial portion of any procurement of such supplies or services.

Sec. 202. The heads of the National Military Establishment and the General Services Administration shall coordinate efforts in the formulation of regulations and prescribing of conditions, as required herein, for their respective agencies, toward the end of achieving uniformity wherever practicable. Insofar as practicable, the head of each other Government agency shall conform such regulations and conditions for his agency to those of the General Services Administration. In the procurement of supplies or services each Government agency shall accept certifications issued by the Small Business Coordinator pursuant to section 402 (4) of title III of this Act.

Sec. 203. As used in this title—

(A) The term "Government agency" includes any Government agency, department, bureau, commission, administration, or other instrumentality, including Government-owned or controlled corporations, and any establishment in the legislative or judicial branch.

(B) The term "small business enterprise" means any business enterprise determined to be a small business enterprise by the Small Business Coordinator in accordance with section 306 of this Act.

## TITLE III—SMALL BUSINESS COORDINATOR

Sec. 301. (a) There is hereby established in the Executive Office of the President a Small Business Coordinator (hereinafter called the "Coordinator") who shall be appointed by the President, by and with the advice and consent of the Senate, and shall receive compensation at the rate of \$15,000 per annum.

(b) The Coordinator shall assist the President in the coordination of the activities of the executive agencies in furtherance of the interests of independent small business concerns and perform such other functions pursuant to this Act as the President may designate. For this purpose the Coordinator shall make or cause to be made such studies, require such reports and information from executive agencies, and consult with such representatives of industry, agriculture, labor, consumers, State and local governments, and other groups, as he deems necessary.

(c) To the fullest extent practicable, the Coordinator shall utilize the facilities and personnel of other executive agencies. Within the limits of funds which may be made available, he may employ and fix the compensation of such officers and employees, and may make such expenditures for supplies, facilities, and services as may be necessary to carry out his functions. The Coordinator may appoint not to exceed six deputies, specialists, or other experts without regard to

the civil-service laws and may fix their compensation without regard to the Classification Act of 1949. One such person shall be compensated at a rate of not to exceed \$14,000 per annum and five such persons shall be compensated at rates of not to exceed \$12,000 per annum. All other officers and employees shall be appointed in accordance with the civil-service laws and their compensation fixed in accordance with the Classification Act of 1949.

(d) To the fullest extent practicable, the Coordinator shall utilize the facilities of small business advisory boards created to assist and counsel Federal agencies, and he may utilize the services of Federal, and, with their consent, State, regional, and local agencies, and utilize such voluntary and uncompensated services as may from time to time be needed.

Sec. 302. The Coordinator shall have power, and he is hereby directed, whenever and to the extent that he determines such action to be necessary—

(1) to make, or arrange with the Bureau of the Census, or such other governmental agency as may be possessed of the necessary personnel and facilities for the making of, a complete study of all productive facilities of independent small business enterprises in the United States which may be used for national defense, the needs of the Federal Government, or civilian purposes; and to develop a definite criterion based upon census statistics and other data to determine what is a small business enterprise, and recommend to the Congress the enactment of a clear definition of small business that will be uniformly interpreted by all the executive agencies;

(2) to direct the attention of officers of the Government having procurement powers to the potential productive capacity of small business enterprises and to recommend to the Congress remedial legislation to correct any inadequacy in the present laws relating to the protection of the interests of small business enterprises;

(3) to take such action as will result in the granting of such Government contracts to small business enterprises operating small plants as will provide them with a sufficient incentive to engage in production for the national defense and Government procurement, thereby eventually lowering the per unit cost to the Government; and

(4) to certify to procurement officers of the Military Establishment or other procurement officers with respect to the competency, or the capacity and credit, of any small business enterprise or group of such enterprises to perform a specific Government procurement contract, and such procurement officers are divided to accept such certification as conclusive, and are authorized notwithstanding the provisions of any other law, to let such Government procurement contract to such enterprise or group of enterprises without requiring it to meet any other requirements with respect to competency, capacity, and credit, such as the furnishing of performance bonds.

(5) to supervise the establishment of rules and regulations by Government agencies pursuant to title II of this Act to insure that a fair and substantial portion of the supplies or services purchased, or contracted for, shall be furnished by small business enterprises and to encourage bids by small business enterprises by publishing and mailing requests for bids and notification of awards to all interested small business enterprises. Procurement officers are directed to supply the Coordinator with such information as the Coordinator may request to accomplish this purpose.

Sec. 303. The Coordinator is hereby directed to consult with the various Federal, State, and local agencies and with independent small business enterprises and associations thereof with a view to recommending to the Congress appropriate legislation designed to further the interests of independent small business enterprises.

The Coordinator shall promote the adoption of policies by the executive departments designed to encourage the growth and development of independent small business enterprises consistently with our traditional national system of free enterprise, and he shall recommend to the Congress the enactment of specific legislation to accomplish this result. While the Congress is determined to insure that independent small business enterprises obtain a fair share of Government contracts, the Congress is fully aware of the fact that the eventual success of independent small business enterprises is dependent upon their ability to compete in the market place and that the Government should confine its endeavors to the removal of the barriers which impede the efforts of small business enterprises to compete fairly and equitably with larger business enterprises of equal benefit to the national welfare.

SEC. 304. The Coordinator shall make an annual report of his operations under this Act to the President, the President of the Senate, and the Speaker of the House of Representatives. Such report shall include such information, and such comments and specific recommendations for legislation, with respect to the relation of independent small business concerns to the national economy as the Coordinator may deem advisable.

SEC. 305. There is hereby authorized to be appropriated such funds as may be necessary to carry out the functions of this title.

SEC. 306. As used in this title, the term "small business enterprise" means any business enterprise (a) the number of whose employees does not exceed five hundred, except that the Coordinator shall, where appropriate, specify a smaller number for any particular trade or industry; and (b) whose position in the trade or industry of which it is a part is determined by the Coordinator not to be dominant. In determining whether an enterprise is a small business enterprise, there shall be considered the relative size and portion of the business in relation to the trade or industry in which it is engaged, the size and nature of the area of its operation, the size and independence of the group supplying capital or holding ownership or control of the business; and no enterprise shall be considered to be a small business enterprise which is affiliated through stock ownership or otherwise with any other enterprise in the same trade or industry which is determined to be dominant in the trade or business in which it is engaged.

---

[S. 3625, 81st Cong., 2d sess.]

A BILL To make capital and credit more readily available for financing small business, foster competition, and coordinate Federal aids to small business, and thus to promote, foster, and develop the domestic and foreign commerce of the United States, and for other purposes

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Small Business Act of 1950".*

#### DECLARATION OF POLICY

SEC. 2. It is the policy of the Congress—

(a) to foster the development and growth of independent small-business enterprises with the objective of enabling them to make their maximum contribution to productive investment and employment and to the economic stability and growth of the Nation;

(b) to make capital and credit for such enterprises more readily available in adequate amounts and on reasonable terms;

(c) to facilitate maximum participation of private financial institutions and investors in financing these enterprises;

(d) to supplement the existing facilities of banks and other private financial institutions by providing for the establishment of privately owned national investment companies;

(e) to help independent small enterprises compete effectively and thereby contribute positively to restraining growth of monopoly and concentration of economic power;

(f) to improve the efficiency and competitive strength of these enterprises by making available more adequate technical and managerial aids; and

(g) to improve the coordination of Federal financing aids to these enterprises with private financing facilities, with other Federal aids to business, and with over-all credit and economic policies.

#### TITLE I—INSURANCE OF LOANS FOR SMALL BUSINESS

##### AUTHORITY TO INSURE

SEC. 101. The Secretary of Commerce (hereafter referred to in this Act as the Secretary) is authorized upon such terms and conditions as he may prescribe to insure such financial institutions as the Secretary finds to be qualified by experience or facilities and approves as eligible for credit insurance against loss of principal and interest which they may sustain as a result of loans made by them to small-business enterprises.

## OVER-ALL LIMIT OF INSURANCE

SEC. 102. The aggregate principal amount of loans with respect to which insurance may be granted under this title shall not exceed \$250,000,000 outstanding at any one time: *Provided*, That on or after July 1, 1951, the President may increase this limit to not more than \$750,000,000.

## SCOPE OF INSURANCE AND INSURANCE RESERVE

SEC. 103. The insurance granted under this title shall provide for the reimbursement of losses—

(a) not in excess of 90 per centum of the unpaid balance of any loan, including the net interest accrued at the time of default; and

(b) not in excess of the insurance reserve of the insured institution according to the records of the Secretary at the date the claim for reimbursement of loss is approved for payment.

The insurance reserve of each institution shall be initially computed as 10 per centum of the total amount of loans on which premiums have been paid and shall be diminished by the amount of claims approved for payment. The insurance reserve, if any, to the credit of any financial institution may, from time to time, be further diminished, but only pursuant to the contract of insurance between the Secretary and such insured institution.

## MAXIMUM PREMIUM CHARGE

SEC. 104. The Secretary shall fix a premium charge for the insurance granted under this title in an amount not to exceed  $1\frac{1}{2}$  per centum per annum of the net proceeds of each loan, payable in advance, at such time and in such manner as may be prescribed by the Secretary.

## TYPE OF LOAN COVERED

SEC. 105. (a) Insurance under this title shall provide for the reimbursement of losses only with respect to loans bearing such interest, having such maturities, and subject to such other terms and conditions as required by regulations in force at the time the insurance is granted.

(b) No insurance shall be granted under this title with respect to any obligation if the total outstanding amount of all loans under this title to the borrower would exceed \$25,000 or if the obligation has a maturity in excess of five years and thirty-two days.

(c) No insurance shall be granted under this title for any loan for agricultural purposes, as determined in accordance with regulations issued by the Secretary after consultation with the Secretary of Agriculture or for any loan with respect to which insurance is available under the National Housing Act, as amended.

(d) Any obligation with respect to which insurance is granted under this title may be refinanced or extended with continued protection under this title in accordance with such terms and conditions as the Secretary may prescribe, but in no event for an amount or an additional term or terms in excess of the maximum provided for in this section.

## TRANSFER OF INSURANCE BETWEEN INSTITUTIONS

SEC. 106. The Secretary, under such regulations as he may prescribe, may transfer to any financial institution approved by him any insurance in connection with any loans which it may purchase from another approved financial institution.

## REVOLVING FUND

SEC. 107. (a) The premiums and other moneys received by the Secretary in the course of operations under this title shall be deposited in a revolving fund in the Treasury of the United States. The revolving fund shall be available for defraying the operating expenses incurred under this title, and for the payment of claims in connection with the insurance granted under this title.

(b) For the purposes of carrying out the provisions of this title, there are hereby authorized to be appropriated to the revolving fund provided in this section—

(1) the sum of \$10,000,000 for the initial establishment of the revolving fund; and

(2) such further sums, if any, as may become necessary for the adequacy of the revolving fund.

(c) The Secretary shall pay annually into the Treasury, as miscellaneous receipts, interest on any sums appropriated to the revolving fund which have not been repaid into the Treasury as provided in subsection (d). The Secretary of the Treasury shall determine the interest rate annually in advance, such rate to be calculated to reimburse the Treasury for its costs in connection with such appropriated funds, taking into consideration the current average interest rate which the Treasury pays upon its marketable obligations.

(d) At least annually, any balance in the revolving fund in excess of an amount determined by the Secretary to be necessary for requirements of the fund and for reasonable reserves to maintain the solvency of the fund, shall be paid into the Treasury as miscellaneous receipts, and any outstanding balance in the amounts appropriated to the revolving fund shall be reduced by the same amount.

(e) The Secretary, with the approval of the Secretary of the Treasury, may invest and reinvest such portions of the revolving fund as he may determine to be in excess of current needs in any interest-bearing securities of the United States or in any securities guaranteed as to principal and interest by the United States, and the income therefrom shall constitute a part of the revolving fund.

#### NATIONAL INVESTMENT COMPANIES AS AGENTS

SEC. 108. In granting and administering insurance under this title, the Secretary may designate and utilize as his agent any national investment company established under title II of this Act, on such basis, including the payment of fees, as may be agreed.

#### EXEMPTION FROM SECTION 24 OF THE FEDERAL RESERVE ACT

SEC. 109. Loans made by national banks with respect to which insurance is granted under this title shall be exempt from the provisions of section 24 of the Federal Reserve Act relating to real estate loans.

#### ADMINISTRATIVE PROVISIONS

SEC. 110. In the performance of, and with respect to, the functions, powers, and duties vested in him by this title, the Secretary, notwithstanding the provisions of any other law, except provisions of law applicable specifically to Government corporations, may—

(a) sue and be sued in any court of record of a State having general jurisdiction, or in any United States district court, and jurisdiction is conferred upon such district court to determine such controversies without regard to the amount in controversy: *Provided*, That no attachment, injunction, garnishment, or other similar process, mesne or final, shall be issued against the Secretary or his property;

(b) under regulations prescribed by him, assign or sell at public or private sale, or otherwise dispose of for cash or credit, in his discretion and upon such terms and conditions and for such consideration as the Secretary shall determine to be reasonable, any evidence of debt, contract, claim, personal property, or security assigned to or held by him in connection with the payment of insurance heretofore or hereafter granted under this Act, and to collect or compromise all obligations assigned to or held by him and all legal or equitable rights accruing to him in connection with the payment of such insurance until such time as such obligation may be referred to the Attorney General for suit or collection;

(c) deal with, complete, renovate, improve, modernize, insure, or rent, or sell for cash or credit upon such terms and conditions and for such consideration as the Secretary shall determine to be reasonable, any real property conveyed to or otherwise acquired by him in connection with the payment of insurance granted under this Act;

(d) pursue to final collection, by way of compromise or otherwise, all claims against mortgagors assigned by mortgagees to the Secretary in connection with real property by way of deficiency or otherwise. Section 3709 of the Revised Statutes, as amended (41 U. S. C. 5), shall not be construed to apply to any contract of hazard insurance or to any purchase or contract for services or supplies on account of such property if the premium therefor

or the amount thereof does not exceed \$1,000. The power to convey and to execute in the name of the Secretary deeds of conveyance, deeds of release, assignments and satisfactions of mortgages, and any other written instrument relating to real property or any interest therein heretofore or hereafter acquired by the Secretary pursuant to the provisions of this Act may be exercised by the Secretary or by any officer or agent appointed by him without the execution of any express delegation of power or power of attorney. Nothing in this section shall be construed to prevent the Secretary from delegating such power by order or by power of attorney, in his discretion, to any officer or agent he may appoint;

(e) prepare annually and submit a budget program as provided for wholly owned Government corporations by the Government Corporation Control Act, as amended;

(f) maintain an integral set of accounts which shall be audited annually by the General Accounting Office in accordance with the principles and procedures applicable to commercial transactions as provided by the Government Corporation Control Act, as amended: *Provided*, That financial transactions of the Secretary, including the settlement of insurance claims and transactions related thereto and vouchers approved by the Secretary in connection with such financial transactions, shall be final and conclusive upon all officers of the Government; and

(g) acquire, in any lawful manner, any property (real, personal, or mixed, tangible or intangible), whenever deemed necessary or appropriate to the conduct of the activities authorized in this title.

## TITLE II—NATIONAL INVESTMENT COMPANIES

### ORGANIZATION OF NATIONAL INVESTMENT COMPANIES

SEC. 201. (a) National investment companies may be formed for the purpose of operating under this title by any number of persons not less than five, who shall subscribe to the articles of incorporation of any such company; except that any company in whose stock one or more Federal Reserve banks invest shall be formed by a Federal Reserve bank, which alone shall subscribe to the articles of incorporation. The total number of national investment companies formed by Federal Reserve banks pursuant hereto shall not exceed the number of Federal Reserve banks and branches thereof.

(b) The articles of incorporation of any national investment company shall specify in general terms the objects for which the company is formed, the name assumed by such company, the area or areas where its operations are to be carried on, the place where its principal office is to be located, and the amount and classes of its shares of capital stock; and the articles may contain any other provisions not inconsistent with this title that the company may see fit to adopt for the regulation of its business and the conduct of its affairs, including provision for cumulative voting in the election of directors. Such articles and any amendments thereto adopted from time to time shall be subject to the approval of the Board of Governors of the Federal Reserve System (hereinafter called the "Board").

(c) The articles of incorporation and amendments thereto shall be forwarded to the Board for consideration and approval or disapproval. In determining whether to approve the establishment of such a company and its proposed articles of incorporation, the Board shall give due regard, among other things, to the need for the financing of independent small-business enterprises in the area in which the proposed company is to commence business, the general character of the proposed management of the company, the number of such companies previously organized in the United States, and the volume of their operations. After consideration of all relevant factors, the Board may in its discretion approve the articles of incorporation and issue a permit to begin business.

(d) Upon issuance of such permit, the company shall become and be a body corporate, and as such, and in the name designated in its articles, shall have power—

(1) to adopt and use a corporate seal;

(2) to have succession for a period of thirty years, unless extended as provided in this section, or unless sooner dissolved by the act of the shareholders owning two-thirds of the stock or by an Act of Congress, or unless its franchise becomes forfeited by some violation of law or regulation issued hereunder;

- (3) to make contracts;
  - (4) to sue and be sued, complain, and defend in any court of law or equity;
  - (5) by its board of directors, to appoint such officers and employees as may be deemed proper, define their authority and duties, fix their compensation, require bonds of such of them as it deems advisable and fix the penalty thereof, dismiss such officers or employees, or any thereof, at pleasure and appoint others to fill their places;
  - (6) to adopt bylaws regulating the manner in which its stock shall be transferred, its officers and employees appointed, its property transferred, and the privileges granted to it by law exercised and enjoyed;
  - (7) to establish branch offices or agencies subject to the approval of the Board;
  - (8) to acquire, hold, operate, and dispose of any property (real, personal, or mixed) whenever necessary or appropriate to the carrying out of its lawful functions;
  - (9) to act as depository or fiscal agent of the United States when so designated by the Secretary of the Treasury;
  - (10) to operate in such Federal Reserve district or districts or Territories or possessions of the United States as may be specified in its articles of incorporation and approved by the Board; and
  - (11) to exercise the other powers set forth in this title and such incidental powers as may be reasonably necessary to carry on the business for which the company is established.
- (e) The board of directors of each national investment company shall consist of nine members all of whom shall be elected annually by the holders of the shares of stock of the company.

#### CAPITAL-STOCK PROVISIONS

SEC. 202. (a) Each company organized under this title shall have a paid-in capital and surplus equal to at least \$5,000,000 before it shall commence business. In order to facilitate the formation of national investment companies, each Federal Reserve bank is hereby authorized, notwithstanding any other provisions of law, to invest in the shares of stock of one or more such companies formed by any Federal Reserve bank under section 201 hereof, but with a view to the ultimate disposal of such stock to banks and other private investors as herein provided. Each Federal Reserve bank which forms a national investment company shall invest in shares of stock of such company in an amount equal to at least \$5,000,000, or an amount which, when added to the amounts, if any, of shares subscribed by other Federal Reserve banks, member banks, nonmember banks, financial institutions, corporations, partnerships, or other persons, shall equal the sum of \$5,000,000. In no event shall any Federal Reserve bank invest in shares of national investment companies if as a result thereof it will hold an amount of such shares aggregating more than 2 per centum of the aggregate amount of the combined capital and surplus of all its member banks, or \$5,000,000 whichever is the greater.

(b) The shares of stock in any national investment company shall be eligible for purchase by member banks of the Federal Reserve System, nonmember banks, financial institutions, corporations, partnerships, or other persons. Each member bank is hereby authorized, notwithstanding any other provision of Federal law, to acquire and hold an amount of such shares equal to not more than 2 per centum of the capital and surplus of such member bank. Upon the demand of any such eligible purchaser, a Federal Reserve bank which holds shares of stock in a national investment company shall, with the approval of the Board, including approval as to price, sell to such eligible purchaser all or a portion of such shares.

(c) The aggregate amount of shares in any such company or companies which may be owned or controlled by any stockholder, or by any group or class of stockholders may be limited by the Board; and no one stockholder, other than a Federal Reserve Bank, shall at any time, without the approval of the Board, own or control more than 10 per centum of the total outstanding shares of any such company.

#### BOROWING POWER

SEC. 203. Each national investment company shall have authority to borrow money and to issue its debentures, bonds, promissory notes, and other obligations under such general conditions and subject to such limitations and regulations as

the Board may prescribe, but in no event shall any such company issue obligations which would cause the amount outstanding at any one time to exceed the amount of its capital stock and surplus.

#### ELIGIBLE ENTERPRISES

SEC. 204. The Board, after consultation with the Secretary of Commerce, shall promulgate standards to determine the eligibility of business enterprises for the purposes of this title. In promulgating such standards, which may differ according to the types of financing or other relevant factors, the Board shall give consideration to—

- (a) the policies set forth in section ;
- (b) the criteria set forth in section 603; and
- (c) the extent to which such enterprises have reasonable access to facilities for credit and equity financing.

#### LOANS AND INVESTMENTS

SEC. 205. (a) Each national investment company shall have authority to make or acquire loans with or without security to business enterprises which are eligible under this title, or to purchase obligations of such enterprises. Such loans, purchases, or other acquisitions may be made either directly or in cooperation with banks or other lending institutions, through agreements to participate or by the purchase of participations, commitments to purchase, or otherwise, as the company may determine.

(b) Each national investment company shall have authority to acquire, and to resell to the issuer or to others, the income debentures or bonds, common or preferred stocks, or other capital shares of business enterprises eligible under this title.

#### AGGREGATE LIMITATIONS

SEC. 206. Without the approval of the Board, the aggregate amount of obligations and securities acquired and for which commitments may be issued by any national investment company under the provisions of this title which exceed the sum of \$300,000 for any single enterprise shall not exceed 33⅓ per centum of the combined capital and surplus and maximum indebtedness of such national investment company authorized by this title.

#### EXEMPTIONS

SEC. 207. (a) The loans of any national banking association which are acquired by any national investment company, in the making of which such company participates, or for any part of which a commitment to purchase is issued hereunder shall not be subject to the limitations on real-estate loans prescribed in section 24 of the Federal Reserve Act, as amended.

(b) Section 3 of the Securities Act of 1933, as amended, is hereby amended by inserting at the end thereof the following new subsection (c) :

“(c) The Commission may from time to time by its rules and regulations, and subject to such terms and conditions as may be prescribed therein, add to the securities exempted as provided in this section any class of securities issued by a national investment company under the Small Business Act of 1950, if it finds, having regard to the purposes of that Act, that the enforcement of this title with respect to such securities is not necessary in the public interest and for the protection of investors.”

(c) Section 304 of the Trust Indenture Act of 1939 is hereby amended by adding the following new subsection (e) :

“(e) The Commission may from time to time by its rules and regulations, and subject to such terms and conditions as may be prescribed therein, add to the securities exempted as provided in this section any class of securities issued by a national investment company under the Small Business Act of 1950, if it finds, having regard to the purposes of that Act, that the enforcement of this title with respect to such securities is not necessary in the public interest and for the protection of investors.”

#### TAX PROVISIONS

SEC. 208. (a) Section 361 (a) of the Internal Revenue Code is amended by inserting before the word “registered” the following: “chartered under the Small Business Act of 1950 as a national investment company or is”.



(b) Section 361 (b) (1) of the Internal Revenue Code is amended by inserting immediately after the words "90 per centum" the following: "(75 per centum in the case of a national investment company chartered under the Small Business Act of 1950)".

(c) Section 361 (b) (3) of the Internal Revenue Code is amended by changing the semicolon immediately preceding the word "and" at the end thereof to a period and inserting after such period the following: "If the Board of Governors of the Federal Reserve System determines that it is necessary and appropriate to accomplishment of the purposes of the Small Business Act of 1950 that any national investment company be exempt from the requirements of this subparagraph, it shall certify such determination to the Secretary of the Treasury and, in such event, the limitations prescribed in this subparagraph shall not apply:".

(d) Section 362 of the Internal Revenue Code is amended as follows:

(1) By amending the first paragraph of subsection (b) thereof to read as follows:

"(b) METHOD OF TAXATION OF COMPANIES AND SHAREHOLDERS.—In the case of the regulated investment company which distributes during the taxable year to its shareholders as taxable dividends other than capital gain dividends an amount not less than 90 per centum of its net income for the taxable year (in the case of a national investment company, increased by the amounts described in subsection (c) (3) (iv) of this section, and decreased by the amounts described in subsection (c) (5) (ii) of this section) computed without regard to net long-term and net short-term capital gains, and complies for such year with all rules and regulations prescribed by the Commissioner, with the approval of the Secretary, for the purpose of ascertaining the actual ownership of its outstanding stock:".

(2) By adding thereto a new subsection (c) to read as follows:

"(c) NATIONAL INVESTMENT COMPANY RESERVE.—

"(1) RESERVE GENERALLY.—A regulated investment company which is a national investment company may, under regulations prescribed by the Commissioner, with the approval of the Secretary, establish and maintain a reserve subject to the limitations provided in this subsection.

"(2) LIMITATION ON RESERVE.—The amount of the reserve shall not at any time exceed the lesser of (i) 50 per centum of the invested capital of the company as defined in paragraph (7) of this subsection, or (ii) the accumulated earnings and profits determined as of the close of the taxable year.

"(3) CHARGES TO RESERVE.—The reserve shall be charged as of the end of the taxable year (whether or not such charge produces a minus amount in the reserve) with the following:

"(i) the net capital loss for the taxable year determined under section 117 (a) (11);

"(ii) the net operating loss for the taxable year, determined under section 122 (a);

"(iii) the Federal income taxes attributable to the amount added to the reserve under paragraph (5) of this subsection; and

"(iv) such amount as may be necessary by reason of the limitation provided in paragraph (2) of this subsection.

"(4) MANDATORY ADDITIONS TO THE RESERVE.—There shall be added to the reserve as of the close of the taxable year the following:

"(i) an amount equal to the excess of the net capital gain for the taxable year computed without regard to section 117 (e) (relating to capital loss carry-over) over the net capital gain for the taxable year; and

"(ii) an amount equal to the excess of the net income for the taxable year computed without regard to section 23 (s) (relating to the net operating loss deduction) over the net income for the taxable year.

"(5) DISCRETIONARY ADDITION TO THE RESERVE.—In any year in which an amount (other than the amounts described in paragraph (4) of this subsection) is added to the reserve, the company shall, in the computation of net income for the purposes of this section be allowed—

"(i) a deduction from net income equal to such amount of the addition to the reserve as does not cause the aggregate amount of the reserve (including such addition) to exceed 20 per centum of the invested capital of the company as defined in paragraph (7) of this subsection; and

"(ii) the dividends received credit provided in section 26 (b) but such credit shall not exceed 85 per centum of the portion of amounts added to the reserve under this paragraph which is not deductible from net income under the preceding clause of this paragraph.

"(6) **REDUCTION OR TERMINATION OF RESERVE.**—In the event of a reduction or termination of the reserve in connection with a partial or complete liquidation of the company (or of any company to which the reserve has been transferred in an exchange upon which gain was not recognized by reason of section 112) the gain realized by a stockholder upon any such liquidation shall, to the extent of the pro rata share of the reserve, be considered as gain from the sale or exchange of property held for less than six months.

"(7) **INVESTED CAPITAL.**—For the purposes of paragraph (1) of this subsection the term "invested capital" means the sum, determined as of the close of the taxable year, of—

"(i) the amount of money or property (included in an amount equal to its unadjusted basis without regard to the value of the property as of March 1, 1913, except that if such basis is a substituted basis, it shall be adjusted, with respect to the period before the property was paid in, by an amount equal to the adjustments proper under section 115 (1) for determining earnings and profits) previously paid in for stock, or as paid-in surplus or as a contribution to capital, reduced by the amount of distributions not out of earnings and profits in the year of distribution and not out of accumulated earnings and profits; and

"(ii) the amount of the outstanding indebtedness (not including interest) of the company which is evidenced by a bond, note, bill of exchange, debenture, certificate of indebtedness, mortgage, or deed of trust, except that indebtedness not represented by a bond or debenture shall not be included in excess of an amount equal to the average daily amount of indebtedness not so represented which was outstanding during the taxable year."

(e) Each national investment company established under this title, including its franchise, capital, reserves and surplus, its income, its real property, its tangible and intangible personal property, its obligations (both as to principal and income derived therefrom), shall be subject to taxation, in the same manner and to the same extent as a State-chartered institution of similar character by any State, county, municipality, or local taxing authority or by any Territory, dependency, or possession of the United States; and its real property shall be subject to special assessments for local improvements.

#### MISCELLANEOUS

SEC. 209. (a) Wherever practicable the operations of a national investment company shall be undertaken in cooperation with banks or other financial institutions, and any servicing or initial investigation required for loans or acquisitions of securities by the company under the provisions of this title may be handled through such banks or other financial institutions on a fee basis.

(b) Each national investment company may make use, wherever practicable, of the advisory services of the Federal Reserve System and of the Department of Commerce which are available for and useful to industrial and commercial businesses, and may provide consulting and advisory services on a fee basis and have on its staff persons competent to provide such services. Subject to the supervision and direction of the Board, any Federal Reserve bank is authorized to act as a depository or fiscal agent for any company organized under this title. Such companies may invest funds not reasonably needed for their current operations in direct obligations of, or obligations guaranteed as to principal and interest by, the United States.

(c) The Board is authorized to prescribe regulations governing the operations of national investment companies and to carry out the provisions of this title in accordance with the purposes of this Act. Each national investment company shall be subject to examinations made by direction of the Board by examiners selected or approved by the Board, and the cost of such examinations, including the compensation of the examiners, may in the discretion of the Board be assessed against the company examined and when so assessed shall be paid by such company. Every such company shall make such reports to the Board at such times and in such form as the Board may require.

(d) The Secretary is authorized to advise and assist in promoting national investment companies.

(e) Each national investment company is authorized to act as agent for the Secretary when so designated by him pursuant to section 108 of this Act, in granting and administering insurance under title I of this Act.

(f) Should any national investment company violate or fail to comply with any of the provisions of this title or of regulations prescribed hereunder, all

of its rights, privileges, and franchises derived therefrom may thereby be forfeited. Before any such company shall be declared dissolved, or its rights privileges, and franchises forfeited, any noncompliance with or violation of this title shall, however, be determined and adjudged by a court of the United States of competent jurisdiction in a suit brought for that purpose in the district or Territory in which the principal office of such company is located, which suit shall be brought by the United States at the instance of the Board or the Attorney General.

(g) Whenever in the judgment of the Board any person has engaged or is about to engage in any acts or practices which constitute or will constitute a violation of any provision of this title or of any regulation thereunder, the Board may make application to the proper district court of the United States, or the United States courts of any Territory or other place subject to the jurisdiction of the United States, for an order enjoining such acts or practices, or for an order enforcing compliance with such provision, and such courts shall have jurisdiction of such actions and upon a showing by the Board that such person has engaged or is about to engage in any such acts or practices a permanent or temporary injunction, restraining order, or other order shall be granted without bond.

(h) Any national investment company may at any time within the two years next previous to the date of the expiration of its corporate existence, by a vote of the shareholders owning two-thirds of its stock, apply to the Board for approval to extend the period of its corporate existence for a term of not more than thirty years, and upon approval of the Board as provided in section 201 hereof such company shall have its corporate existence extended for such period unless sooner dissolved by the act of the shareholders owning two-thirds of its stock, or by an Act of Congress or unless its franchise becomes forfeited as herein provided.

(i) Nothing in this Act or in any other provision of law shall be deemed to impose any liability on the United States or on any Federal Reserve bank with respect to any obligations entered into, or stocks issued, or commitments made, by any company organized under this title.

### TITLE III—AMENDMENTS TO RECONSTRUCTION FINANCE CORPORATION ACT

#### LOANS TO ENCOURAGE SMALL BUSINESS

SEC. 301. (a) Subsection (a) of section 4 of the Reconstruction Finance Corporation Act, as amended, is hereby amended by renumbering paragraphs "(2)", "(3)", and "(4)" thereof "(3)", "(4)", and "(5)", respectively, and inserting therein the following new paragraph:

"(2) To make loans to any small-business enterprise (as determined pursuant to section 603 of the Small Business Act of 1950, and the classifications established thereunder) which is a worthy credit risk but does not have adequate collateral, either directly or in cooperation with banks or other lending institutions through agreements to participate or by the purchase of participations, or otherwise, for the purpose of meeting the credit requirements of such business enterprise: *Provided*, That management abilities, potential earnings, and other factors deemed pertinent by the Corporation afford a reasonable expectation that the loan will be repaid."

(b) The second sentence of paragraph (1) of section 4 (b) of the Reconstruction Finance Corporation Act, as amended, is hereby amended by striking out "(2), and (3)" and inserting in lieu thereof "(3), and (4)".

(c) Subsection (c) of section 4 of the Reconstruction Finance Corporation Act, as amended, is amended by striking out "(a) (4)", "(a) (3)", and "(a) (2)" and inserting in lieu thereof "(a) (5)", "(a) (4)", and "(a) (3)", respectively.

#### AVAILABILITY OF OTHER FINANCING

SEC. 302. The first sentence of paragraph (1) of section 4 (b) of the Reconstruction Finance Corporation Act, as amended, is hereby amended to read as follows:

"No financial assistance shall be extended pursuant to paragraphs (1), (2), (3), and (4) of subsection (a) of this section, unless the financial assistance

applied for is not available on reasonable terms from other sources, including with respect to paragraphs (1) and (2) national investment companies established under the Small Business Act of 1950."

#### MATURITIES

SEC. 303. Paragraph 2 of section 4 (b) of the Reconstruction Finance Corporation Act, amended, is hereby amended by—

(a) striking out "ten" whenever it appears and inserting in lieu thereof "fifteen";

(b) changing the period at the end of the first sentence to a colon and adding: "*Provided further*, That any loan to a business enterprise made for a purpose essential to the national defense as determined by the President through such officials as he may designate may be made with such maturity as the Corporation may determine."; and

(c) striking out "sections 4 (a) (1), (2), and (4)" and inserting in lieu thereof "paragraphs (1), (2), (3), and (5) of subsection (a) of this section"; striking out "subsection 4 (a) (3)" in the last sentence and inserting in lieu thereof "paragraph (4) of subsection (a) of this section".

#### PARTICIPATION LIMITS

SEC. 304. Paragraph (3) of subsection (b) of section 4 of the Reconstruction Finance Corporation Act, as amended, is amended by striking out the period at the end thereof and inserting a colon and the following: "*Provided*, That such participation by the Corporation shall be limited to 80 per centum of the balance of the loan outstanding at the time of the disbursement, in those cases where the loan is made pursuant to paragraph (2) of subsection (a) of this section."

### TITLE IV—CHANGES IN FEDERAL RESERVE AUTHORITY

#### REPEAL OF SECTION 13B OF THE FEDERAL RESERVE ACT

SEC. 401. Effective one year after the date of enactment of this Act, section 13b of the Federal Reserve Act is hereby repealed; but such repeal shall not affect the power of any Federal Reserve bank to carry out, or protect its interest under, any agreement theretofore made or transaction entered into in carrying on operations under that section.

#### RETURN OF FUNDS TO TREASURY

SEC. 402. (a) Within sixty days after the enactment of this Act, each Federal Reserve bank shall pay to the United States the aggregate amount which the Secretary of the Treasury has heretofore paid to such bank under the provisions of section 13b of the Federal Reserve Act; and such payment shall constitute a full discharge of any obligation or liability of the Federal Reserve bank to the United States or to the Secretary of the Treasury arising out of subsection (e) of said section 13b or out of any agreement thereunder.

(b) The amounts repaid to the United States pursuant to section 402, and any remaining balance of the funds set aside in the Treasury for payments under section 13b of the Federal Reserve Act shall be covered into miscellaneous receipts.

#### AUTHORITY TO SELL ASSETS TO NATIONAL INVESTMENT COMPANIES

SEC. 403. Any national investment company organized under this Act may purchase from any Federal Reserve bank, and any Federal Reserve bank is authorized to sell to any such company, at such reasonable price as may be agreed upon, any or all of the assets heretofore or hereafter acquired by such Reserve bank under the provisions of section 13b of the Federal Reserve Act.

### TITLE V—TECHNICAL AND MANAGERIAL AIDS

#### USE OF EXISTING AUTHORITY

SEC. 501. In providing technical and managerial aids to business, the Secretary is hereby directed to give special emphasis to the requirements of small business. This emphasis shall apply, but not be limited to, the exercise of the Secretary's authority—

(a) to conduct and stimulate research, in cooperation with other Federal and State agencies and private organizations, or otherwise, in the basic problems of production, distribution, and marketing of nonagricultural commodities and products;

(b) to collect information on costs of distribution of, and to promote more efficient marketing methods, practices and facilities for, nonagricultural commodities and products;

(c) to conduct research and to foster and promote the development of new products and new and expanded markets for nonagricultural commodities and products, and in this connection to cooperate with the Administrator of General Services in making recommendations to Federal procurement agencies with respect to policies and procedures; and, further, to make available the results of studies of domestic productive potential of small-business enterprises to the General Services Administration, the Department of Defense, the National Security Resources Board, and other interested Federal agencies;

(d) to collect and disseminate information on market developments and prospects for nonagricultural commodities and products, including procurement programs for Federal departments and agencies;

(e) to prepare and disseminate to business the best information available on sound management policies, procedures, and practices and to cooperate with public and private organizations in encouraging research, study, and instruction on these subjects;

(f) to conduct research and such other activities as may be necessary to promote the development and use of sound financial practices in the operation of business enterprises; and

(g) to conduct and stimulate research, in cooperation with appropriate public and private bodies or otherwise, to strengthen and develop business by areas and regions and to improve the economic basis for such development.

#### CLEARING HOUSE FOR TECHNICAL AND MANAGERIAL INFORMATION

Sec. 502. (a) The Secretary is hereby directed to establish and maintain within the Department of Commerce a clearing house for the collection, dissemination, and exchange of scientific, technical, engineering, and managerial information on nonagricultural commodities and products, and to this end to take such steps as he may deem necessary and desirable—

(1) to search for, collect, classify, coordinate, integrate, record, and catalog such information from whatever sources foreign and domestic that may be available; and

(2) to make such information available to industry and business, with special emphasis on the needs of small business, to State and local governments, to other agencies of the Federal Government, and to the general public.

(b) The Secretary is hereby authorized to call upon other departments and independent establishments and agencies of the Government to provide, with their consent, such available services, facilities, or other cooperation as he shall deem necessary or helpful in carrying out the provisions of this title, and he is directed to utilize existing facilities to the full extent deemed feasible.

#### DEVELOPMENTAL, ENGINEERING, AND TECHNOLOGICAL RESEARCH

Sec. 503. The Secretary is hereby authorized to undertake, through the National Bureau of Standards, other Federal laboratories, nonprofit research foundations and educational institutions, or other facilities available to him, engineering and technological research on industrial, commercial and related programs of interest to small business on nonagricultural commodities and products. No such project shall be undertaken unless he finds that it is unlikely that the objective of such project will be equally well achieved within a reasonable period of time (1) by private enterprise or (2) by any other research or development undertaken or sponsored by the Government or other public authority.

#### MISCELLANEOUS PROVISIONS

Sec. 504. (a) To the full extent feasible in achieving the objectives of this title, the publications, services, and functions provided under sections 501, 502, and 503 which are for the special use and benefit of private groups and

individuals shall be self-sustaining or self-liquidating; but nothing herein shall be construed to require the levying of fees or charges for services performed or publications furnished to any agency or instrumentality of the Federal Government, or for publications which are distributed pursuant to reciprocal arrangements for the exchange of information or which are otherwise issued primarily for the general benefit of the public.

(b) In administering the policies set forth in subsection (a) above, the Secretary shall establish, from time to time, a schedule or schedules of reasonable fees or charges for services performed and for documents or other publications furnished under this title: *Provided*, That moneys hereafter received by the Secretary in payment for such services and publications under this title may be deposited in a revolving fund in the Treasury, to be available for the expenses of performing the services and preparing and printing the documents or other publications authorized under this title and for making refunds to organizations and individuals when entitled thereto: *Provided further*, That at least annually any balance in the revolving fund in excess of an amount determined by the Secretary to be necessary for the requirements of the fund shall be paid into the Treasury as miscellaneous receipts. Appropriations for the capital of the revolving fund are hereby authorized.

(c) The Superintendent of Documents is authorized to distribute documents and publications furnished under this title by public sale at cost plus 50 per centum and to reimburse the revolving fund for the cost of such documents and publications sold: *Provided*, That a discount of not to exceed 25 per centum may be allowed to authorized book dealers and quantity purchasers.

(d) When in his judgment work to be performed under this title will be carried out more effectively or more rapidly, or at less cost than if performed by the Department of Commerce, the Secretary may enter into contracts with such public or private organizations or individuals as he may find qualified to carry on such work.

## TITLE VI—MISCELLANEOUS PROVISIONS

### DELEGATION OF AUTHORITY

SEC. 601. The functions of the Secretary under this Act shall be performed by him or, subject to his direction and control, by such officers, agencies, or corporations of the Government which are under his supervision, as he may designate. There shall be in the Department of Commerce one additional Assistant Secretary of Commerce, who shall be appointed by the President, by and with the advice and consent of the Senate, who shall receive compensation at the rate prescribed by law for assistant secretaries of executive departments, and who shall perform such duties as the Secretary shall prescribe.

### COORDINATION WITH ECONOMIC AND FISCAL POLICIES

SEC. 602. The President may, at any time or times, reduce, for such periods as he shall specify, the maximum authorized principal amounts, maximum maturities, or maximum percentage of Federal insurance or participation of any type or types of loans for business which thereafter may be made, insured, or guaranteed by any department, independent establishment, or agency in the executive branch, or by any wholly owned Government corporation or mixed-ownership Government corporation as defined in the Government Corporation Control Act upon a determination, after taking into consideration the effect thereof upon general economic conditions and upon the national economy, that such action is necessary or desirable to coordinate the business-aid functions and activities of the Federal Government with its general economic and fiscal policies.

### ELIGIBLE ENTERPRISES

SEC. 603. For the purposes of administering this Act other than title II hereof, the Secretary shall establish such classifications of business enterprises as he deems appropriate. Such classifications shall relate to appropriate industry groupings and in no case to individual enterprises as such. In establishing these classifications the Secretary shall give consideration to the policies set forth in section 2, with special reference to the following criteria:

(a) the relative size and importance of businesses operating in the industry;

- (b) the competitive circumstances of the industry, and the businesses therein, including the degree of independence of such businesses; and
- (c) such other factors as may be appropriate.

#### AUTHORITY TO PROMULGATE AND WAIVE REGULATIONS

**Sec. 604.** (a) The Secretary may make such rules and regulations as he deems necessary to carry out the authority vested in him by or pursuant to this Act. Any such rule or regulation issued under this Act may contain such classifications and differentiations and may provide for such adjustments and reasonable exceptions as in the judgment of the Secretary are necessary or proper in order to effectuate the purposes of this Act.

(b) The Secretary is authorized to waive compliance with regulations prescribed by him under this Act if, in his judgment, such regulations have been substantially complied with in good faith and where such waiver does not involve an increase of the obligation of the Secretary beyond the obligation which would have been involved if the regulation had been fully complied with.

#### ADMINISTRATIVE PROVISIONS

**Sec. 605.** In the performance of, and with respect to, the functions, powers, and duties vested in him by this Act, the Secretary, notwithstanding the provisions of any other law, may—

- (a) prepare and disseminate information concerning the activities undertaken under this Act;
- (b) enter into contracts; and
- (c) employ experts and consultants or organizations thereof as authorized by section 15 of the Act of August 2, 1946 (5 U. S. C. 55a), and individuals so employed may be compensated at rates not in excess of \$50 per diem and shall be allowed travel expenses as authorized by section 5 of said Act (5 U. S. C. 73b-2) for persons so employed. Service of an individual as such expert or consultant shall not be considered as service or employment bringing such individual within the provisions of sections 281, 283, or 284 of title 18, United States Code, or of Revised Statutes, 190, or of any other Federal law imposing restrictions, requirements, or penalties in relation to the employment of persons, the performance of services, or the payment or receipt of compensation in connection with any claim, proceeding, or matter involving the United States.

#### REPORTS

**Sec. 606.** The Secretary shall report annually to the Congress through the President on the programs authorized by this Act.

#### PENALTIES

**Sec. 607.** (a) Title 18, United States Code, section 493, is amended by inserting the phrase "Department of Commerce," after the phrase "Federal Housing Administration,".

(b) Title 18, United States Code, section 657, is amended by inserting the phrase "Department of Commerce," after the phrase "Federal Housing Administration,".

(c) Title 18, United States Code, section 1006, is amended by inserting the phrase "Department of Commerce," after the phrase "Federal Housing Administration,".

(d) Title 18, United States Code, section 1010, is amended by inserting the phrase "or Department of Commerce" after the phrase "Federal Housing Administration,".

(e) Title 18, United States Code, section 1014, is amended by inserting the phrase "or a national investment company organized under title II of the Small Business Act of 1950" after the words "Federal Reserve Bank".

#### GEOGRAPHIC APPLICABILITY

**Sec. 608.** The authority provided in this Act shall be applicable in the United States, including the District of Columbia and the Territories and possessions.

## RIGHT TO AMEND THIS ACT

SEC. 609. The right to amend, alter, or repeal this Act is hereby expressly reserved.

## AUTHORIZATION OF APPROPRIATIONS

SEC. 610. There are hereby authorized to be appropriated, out of any moneys in the Treasury not otherwise appropriated, such sums as may be required to carry out the purposes of this Act.

The CHAIRMAN. It is expected that the Senate will recess for a few days over the Fourth of July. We will commence these hearings again on the twelfth of July.

In the meantime, for the benefit of those who are interested, Senator Sparkman is going to hold hearings in here on the FNMA legislation, which has practically expired insofar as funds are concerned. Many changes in the FNMA legislation have been suggested, and I filed a bill on that subject. Senator, on what day did you decide to hold those hearings?

Senator SPARKMAN. The 10th, 11th, and 12th.

The CHAIRMAN. So we have those hearings on those 3 days. Then we will resume these hearings and go through the balance of the month of July.

I do not want anybody to think for one moment that we are going to rush any hearings. These are very important bills that will affect millions of people in this country, small business and big business, as well.

I do think, though, that through the month of July and probably by early August, we can complete the hearings.

I instructed the staff to notify everybody, because we have a lot of people who want to be heard.

That is the intention of the chairman, unless the committee rules otherwise.

Senator ROBERTSON. Mr. Chairman, I would like to make a brief comment on that.

The CHAIRMAN. Let me get through here, first.

On the other hand, we have the Export-Import Bank nominations here—the terms expire on the 30th of June.

I am asking the clerk to notify the Senators, if he has not already done so, that we will have a public hearing on Monday.

We also have nominations of the members of the Board of Directors of the RFC, that also expire on June 30. Those names have not been sent up as yet. They are supposed to be sent up shortly.

So, I have set today and tomorrow for small business, and after Tuesday and Wednesday, when we have Senator Lucas and Senator O'Mahoney and other authors of bills scheduled to be heard, we will try and get through with all the nominations, so that we will be up with the law on those nominations as of July 1.

I just wanted to make it very plain as to how I see the situation from an over-all committee standpoint. Here is what the committee is going to do about the bills: We are going to have hearings on all the small-business bills that have been introduced. Whatever the committee wishes to do about all of these bills, if they wish to separate them, if they wish to make them all into one bill, or if they do not wish to have any bill at all, is of course the business of the com-



mittee. It is my business as chairman to try and conduct the hearings so that the people of America will know exactly what is in the bills and the people will have a chance to determine what legislation is necessary or is not, in the wisdom of the committee, in the interest of small business in the country.

I just wanted to make that perfectly plain for the record, because some time ago I did not see how it was possible for us to finish these hearings, but now, looking into the future, as I see it, from the desire of the administration to bring up the tax bill, it means we are going to be here for quite a long time.

I would like to see the committee complete the hearings, at least, this year, and determine what to do with the bill, whether or not they want to report it. That is a matter for the committee to decide; whether they want to report parts of the bills or all of the bills.

But it does seem that we are going to be here for quite a while, since the Finance Committee will be holding hearings on the tax bill. The Appropriations Committee will be holding hearings, and some of us are members of that committee. They will probably be completed next week, so I think this committee will have the time to complete this work by the end of July.

Senator Robertson?

Senator ROBERTSON. Mr. Chairman, I can fully understand your desire and the desire of this committee to give all interested parties an opportunity to be heard upon these six bills designed to aid small business. I agree with you that we may be here until the middle of August and, if we did not have anything to do but attend hearings of the Banking and Currency Committee during that time, it would be one thing. But if we are going to be tied up with the appropriations bill, first in committee and then on the floor, for the next month, I do not see how members of the Appropriations Committee are going to follow that appropriation bill and be on the floor to vote as amendments are offered to each supply bill that is in the omnibus bill, and give this proposed legislation the time and attention which it fairly deserves.

I, therefore, agree with the first position taken by the chairman, that it would be a physical impossibility for us to conclude action on the bill at this session, and my opinion on that has not changed.

Everybody knows that the House is up with its program. Everybody knows that every Member of the House is up for reelection. I am not so optimistic as to believe that we can hold the House in session one day after we have finished the conference reports on the appropriations bill and on the tax bill.

I do not believe that the policy committee of the Senate will vote to take up any other controversial legislation until those two major bills have been disposed of.

We also have before us a resolution to transfer the RFC to the Department of Commerce. The House will vote this week on a disapproving resolution and my advice is that there will not be 219 Members of the House to vote against that resolution.

The Senate Committee on Executive Expenditures has reported out a disapproving resolution without recommendation, and there is considerable doubt in my mind that the Senate will muster 49 votes in favor of that disapproving resolution.

Then, if I am correct in those two assumptions, we will have a principal lending agency in the Department which will be authorized by one of these bills to make loans to small business.

Therefore, it would seem to me to be the better part of wisdom to see what happens on that reorganization bill and then see what the distinguished Secretary of Commerce can do in the way of making sound loans to small business through his supervision of the RFC, which has all the powers to make loans to small business covered by any of these bills, except a provision in one bill to relax the security which must be required, which clearly is of doubtful soundness.

The CHAIRMAN. Might I say this, Senator, so far as the RFC is concerned, I am not suggesting, nor have I suggested, what this committee will do about any of these bills. The only thought I had was that, in view of the fact that the appropriations bill will be completed next week, I believe, and we are going to be here a long time, as I see it, I thought we could have hearings to enlighten this committee on what sort of legislation they wanted to report out, or if they didn't want to report it, not to report any at all.

There has been no assurance made to me that we would report any bill that has been brought up.

As far as the RFC is concerned, I attended a subcommittee meeting yesterday afternoon before we had the Treasury-Post Office meeting, and Senator Fulbright stated then, as I remember, that it would take only 3 days more for him to complete the hearings on the reorganization of the RFC. That means that the subcommittee intends to submit to this committee certain legislation regarding the RFC, if and when the reorganization plan is passed. I do not know how many Senators are going to vote for the reorganization plan or how many are going to vote against it. But Senator Fulbright is going to make a report to this committee on the RFC, which will probably contain certain thoughts on legislation. The report has not been written yet. We met yesterday afternoon, and he said it would take three more days. He is working on that.

Insofar as the Lustron investigation is concerned, of course that is going to take a long time in that subcommittee.

What I thought we could do in this committee, the full committee, because most members of the full committee are on the Small Business Committee, is that we could at least have the hearings here so that those who wanted to be heard on both sides could be heard and have ample time, sometime between now and the 15th of August, to do that. Of course, if the Congress recesses sometime before that, as I sincerely hope they will, that will put an end to it. I just wanted to keep faith with those who have bills here.

Senator ROBERTSON. I understand that, and I want to keep faith, too, but I think we ought to give priority to the most important and most essential things.

The next observation I would like to make, Mr. Chairman, is this: In the May issue of the National City Bank bulletin, they said that what small business needed more than capital was experienced and able management, and that the best aid Congress could give to small business would be tax reduction.

Later that month, the Guaranty Trust Co. came out with their bulletin and said they had made a survey of New York State, of the small businesses that had failed. As I recall, they ascertained that

over 90 percent of those failures were due to poor management and not to lack of capital.

The CHAIRMAN. I am going to agree with you that is the kind of testimony I would like to get here for this reason: I read an article the other day saying that business was so good that small business needed no legislation. Whether that is a fact, or not, I do not know. What I want to find out here is, What are the facts?

I want to say this in fairness, in justice, and in appreciation of what these larger banks have done: Transamerica, when we had them here on bank holdings, you remember that I questioned them on small business and the small-business loans they had made in California. I was amazed to see how far they had gone into the small-business loans, according to the statements they had.

I understand that Chase National Bank and National City and several of them have set up branches to look after small business. I think it has been done because there has been so much talk about small business and so many bills introduced, there have been so many hearings held by the Joint Economic Committee and so many hearings held by the Small Business Committee, there have been so many hearings held around here that it has been brought to the front of the thought of these larger banks. I do not know, but I want to find out.

Senator ROBERTSON. I understand it is the desire of all the Members of Congress to do something for small business. But if it be true that the best aid we can give to small business is to give them tax relief, it is in the House tax bill. If it stays in there and is enacted into law, corporations with a net income of \$5,000 get a definite cut. Corporations that are subject to that notch, which was never a scientific thing, which goes up to 50 percent when the over-all rate is only 38 percent, between \$25,000 and \$50,000, will get relief. They get relief up to \$167,000, and any corporation with a net income of more than that is no longer small.

The CHAIRMAN. Let me ask you this: In that bill they are going to raise the taxes, too, on the bigger corporations. That, in turn, will help small business, if that passes, will it not?

Senator ROBERTSON. It is calculated to slow the big ones down some, 15,000 of them.

Now, we have about 500,000 corporations and there have never been more than half of them that had any net taxable income. Fifteen thousand of them have a net taxable income of above \$167,000. They have been paying 38 percent and the House bill provides that they should go up to 41 percent, and they get hooked for about \$425,000,000 to offset that amount of excise cuts.

But if we really want to help small business at this session, the best help I think we could give, if we can arrange so that we do not substantially add to a distressing deficit, would be to do it in this pending tax bill, and I assume that we can work it out.

Now, my third observation is this: The chairman and I and Senator Sparkman have taken the position that the Congress should not attempt to act on FEPC because we have not had any hearings on it.

I worked for a couple of months on the bank holding bill early in the spring, in which I was very much interested. We had a lot of testimony and a lot of conflicting views. I tried to reconcile them and finally came up with a new bill of my own. When I presented that before the subcommittee, the point was raised: We should not report

that bill out because we have had no hearings on it, and I had to concede the justice of that position.

We arranged to have hearings and then decided that we were so busy with a multitude of other matters that that would just have to wait until next session; that we could not dispose of it at this session.

The CHAIRMAN. The fact is that the committee itself could not agree among themselves.

Senator ROBERTSON. Well, we did not agree, and we are not going to agree on these six bills before us now.

The CHAIRMAN. I am not suggesting what the committee will do, Senator. All I wanted to do was have the hearings.

Senator ROBERTSON. So this is a pattern. No matter what hearings we have, no matter how many days we keep that distinguished gentleman behind the recording machine with the gas mask over his face at \$25 or \$30 a day, we have it all to do over again next year, bring all of these industrial witnesses in here, print this record at \$25 or \$30 a page. We have all of that to do over again next year.

I did not object when I understood we would have 2 days of hearings and let a preliminary statement be made to kind of summarize the problem for us, but I frankly did not anticipate that we were going to sit down here for another month and bring industrial witnesses from all over the Nation here to make a 1,000 or 1,500-page record which we will discard next year and go over it all again. And probably, whether we wanted to or not, we would have to do it, because by next year conditions would be so materially changed that what now looks like a good program would maybe be an improper one or an inadequate program 6 months from now.

That is the reason, Mr. Chairman, with all due deference, that I could not enthusiastically endorse any proposal that we stay on this thing until we hear everybody who wants to be heard.

The CHAIRMAN. Senator Sparkman, do you have thoughts on the matter?

Senator SPARKMAN. Mr. Chairman, I certainly think we ought to proceed with the hearings, myself. We all recognize there are problems confronting small-business men. That does not mean we are endorsing any one of these particular bills or the omnibus bill, which is S. 3625, as I understand. But I certainly think we ought to go into the matter thoroughly and then we can make up our minds whether we want to put out legislation.

That is all I have to say.

The CHAIRMAN. I was not suggesting any legislation. I was only talking about the hearings.

The first witness is the Secretary of Commerce.

Mr. Secretary, we are very pleased to have you here. I presume you have a written statement?

Mr. SAWYER. Yes, Mr. Chairman.

The CHAIRMAN. If you will proceed in your own way, we will appreciate it. Is this directed at any particular bill, or at all the bills?

Mr. SAWYER. It is directed in particular at S. 3625.

The CHAIRMAN. Will you proceed in your own way?

Mr. SAWYER. I would prefer, Mr. Chairman, to read this statement and then be questioned after, if you care to do so.

The CHAIRMAN. That is perfectly all right.

**STATEMENT OF CHARLES SAWYER, THE SECRETARY OF  
COMMERCE**

Mr. SAWYER. As head of the executive department most directly concerned with the problems of the business community, I am appearing before this committee in support of statutory provisions designed to assist small business and thereby to strengthen our national economy. Among the several measures under consideration, I am particularly interested in the proposed Small Business Act of 1950, which has been sponsored by four Senators and, in the House, has been introduced by several Representatives in addition to the chairman of the Committees on Banking and Currency and Small Business.

This measure incorporates many of the features of other small-business bills now before the Congress, among them bills previously introduced by the chairman of this committee, Senator Maybank, and by Senators Lucas and O'Mahoney. It is, furthermore, wholly consistent with the program of the President, and with the objectives of small-business legislative proposals set forth in his recent message on this subject.

Small business comprises nearly 90 percent of American business establishments, employs nearly half of our nonagricultural workers, and handles over one-third of the total volume of business. Even more important, small business is the seedbed from which the industry and commerce of the United States have grown and must continue to grow. It is a principal avenue through which new ideas and fresh infusions of competition reach the vitals of the American enterprise system. For the very reason that it represents a multitude of individual sources of initiative, it contributes both vitality and flexibility to the economy and thus constitutes a basic element of our national strength in a world where the institutions of freedom are challenged by monolithic states. We are concerned here, therefore, not only with a large segment of our national economy and the cornerstone of its vitality but with a fundamental aspect of our national life.

We have come increasingly to appreciate how fundamental is the relationship between our national institutions and our national strength. It is the vitality of our economy that has made the United States the industrial leader of the world and it is only as we safeguard that vitality and maintain the vigor and growth of our economy that we can look forward with confidence to maintaining our leadership and all it means today for the free peoples of the world.

There is a public interest in the health of small and independent business and the conditions under which it is conducted. Concern for competition and for safeguarding the conditions that must prevail if small and independent businesses are to continue to be launched and continue to grow into larger businesses was crystallized in the Sherman Act of 1890. That act has been followed by related statutes which today make up our trade regulatory law. Sixty years later, however we are still seeking how best to reconcile the tendencies of our economy toward concentration with the requirements of the general welfare. We are still seeking to avoid the dangers of undue concentration of economic and financial power without losing the manifest public benefits which American industry has demonstrated can be won through large-scale production and distribution.

As recently as 1938 the Congress authorized a fresh investigation of this broad area of public policy and created the temporary National Economic Committee for this purpose. Since that time a number of lesser examinations have been undertaken by the Congress and the Executive Departments to supplement, improve upon, or bring up to date the findings of that committee. These studies of monopoly and competition in the American economy have, of course, borne directly upon the problems of small business and the setting in which small businesses are launched and operated.

A full generation ago a new approach to these problems was begun with the establishment of the Bureau of Foreign and Domestic Commerce in the newly separated Department of Commerce—originally the Department of Commerce and Labor. Charged with fostering, promoting, and developing the foreign and domestic commerce of the United States, the new Department and Bureau found that their efforts in behalf of business growth were needed by and essential to the smaller business units. Over the years since that time, the Department has developed its programs in the light of this growing experience. Today, although there is no part of the business services of the Department which is not useful to and used by small business, the requirements of smaller business establishments are also specifically recognized in a number of our programs, primarily those of the Small Business Division in our Office of Industry and Commerce.

In that Office and in the closely related Office of Technical Services there are today established activities designed to aid small business in the fields of financial planning, taxation, management, Government procurement, production techniques, marketing, new product promotion, industrial development, community help-help, and competitive practices.

In developing these programs, we have been guided not only by our own experience in servicing the business community, but by congressional action and attitudes as well.

Since 1940, when the Senate established a Small Business Committee, there has been continual congressional attention to the problems of this area. During the war, the Congress created the Smaller War Plants Corporation to assume the full appropriate utilization of small manufacturing plants.

Our present programs have benefited materially from the findings of the several congressional committees and the experience of that special-purpose corporation. We have also drawn systematically upon a Small Business Advisory Committee, whose function it is to advise the Secretary of Commerce regarding the problems of small business and to make recommendations for their solution. During my term as Secretary, I have found this committee, composed of men from smaller businesses or who are professionally concerned with small-business problems, to be fertile in constructive suggestions. The substance of title I of the present bill, providing for the insurance of loans for small business, was originally sponsored by my Small Business Advisory Committee.

Last summer and fall, in the course of my Nation-wide personal survey of business, I was able to supplement the advice of this committee through talks with many small-business men. I learned much about their problems. I was again reminded how problems which are

common to both big and little business more quickly and seriously affect the little fellow. This experience has led me to give renewed emphasis to phases of the Department's work on behalf of small business.

The CHAIRMAN. Mr. Secretary, you said you wanted to complete this before you were questioned?

Mr. SAWYER. No; not necessarily. I would be very glad to be interrupted.

The CHAIRMAN. I was impressed with that paragraph on page 4, in which you state that the investigations of the Small Business Committee have been of profit to the small-business men. In other words, you think more has been drawn out in hearings, whether any bills have been passed or not; you are better off, you are better guided by what has been brought out; is that correct?

Mr. SAWYER. Yes; I think so. I think the congressional investigational activities have been very helpful.

The CHAIRMAN. You know, of course, I withdrew the bill that this committee reported out.

Mr. SAWYER. I understood so; yes, sir.

The CHAIRMAN. Of course, you are looking after it now, and you have been very cooperative with the Small Business Subcommittee of this committee.

Mr. SAWYER. We have tried to be.

The CHAIRMAN. Your representatives particularly have been. We have had many cases before you. Are you going to talk about any of those in here?

Mr. SAWYER. In a way, I will. Of course, we cooperate with your staff at all times.

The CHAIRMAN. I appreciate your cooperation, and that is what I wanted to get down here.

You believe that from these hearings, the people we have had and the people we have sent down there, and the conferences with the staff here, that your representatives have been better informed as to how to better help small business; is that right?

Mr. SAWYER. Yes, I think so. That is what I intended to say.

The CHAIRMAN. I have heard that from others, and I want to congratulate the Commerce Department on it.

Now, by what law do you have small business? You do not have any law that puts them under you?

Mr. SAWYER. We have a Small Business Section or Small Business Division.

The CHAIRMAN. There is no law of the land that turns it over to you?

Mr. SAWYER. No.

The CHAIRMAN. But in this bill where small business is turned over to the Commerce Department, that would be a law and you would be able then to have perhaps more authority under that, would you not?

Mr. SAWYER. To a certain extent. I planned to mention that later on.

The CHAIRMAN. I will withdraw the question until you do. I was so interested in the good work that you have been doing and the cooperation with the staff here that, when we pass this bill to create the Small Business Administrator under the White House, recall the

bill from the calendar, I was hopeful that in S. 3625—I do not know what sections may be adopted or may not be adopted; all of them may be adopted or none of them may be adopted—but I am particularly interested at this time to refer to that one, and that is to have some law passed in which the Commerce Department by law would have more authority to deal with small business than they now have, and that would give you more authority, this section of the law.

Mr. SAWYER. There is no doubt but what several sections of this bill would give more authority than the Commerce Department now has, although it has, of course, the over-all authority given in the original enactment under which we are operating at the moment.

I hope you will feel free to interrupt me at any time, Mr. Chairman, or any other members of the committee.

One aspect of our work which has general application is designed to remedy the long recognized inadequacies of present definitions of small business. Obviously, no single standard of size can be applied to all lines of enterprise or for all purposes. Members of the Department's staff now have under way a series of studies which, when completed, will provide a well-grounded basis for the definition of the small business sector of each of the recognized lines of industry and trade and for arriving at the terms of eligibility for the financial assistance which is provided by certain sections of the Small Business Act of 1950.

The CHAIRMAN. Have any of those studies been completed?

Mr. SAWYER. No, not yet.

The CHAIRMAN. Would you be good enough to furnish this committee with them when they are completed?

Mr. SAWYER. Yes, we certainly shall.

In addition to emphasizing our work in the small-business field, I have felt it important to improve the coordination of all of our program. I hope to be able, through the powers granted by the Reorganization Plan No. 5, to carry such matters of coordination further still. I am endeavoring to secure the fullest practicable degree of coordination, not only within the Department but between our activities and the related activities of other departments. If an additional Assistant Secretary of Commerce is authorized by the Congress, as provided in the present bill, I shall look to him for major assistance in carrying such coordination forward.

In many ways small business is handicapped because the expert business knowledge it requires is not easily developed by a firm below a given size. This applies to such matters as technical research, market development, and tax compliance. It applies also to many aspects of management in which specialized expertness has been developed in recent years. On problems of this general character, the Department has been able to provide useful services to enable small businesses to overcome the handicaps of size. A little later, in connection with certain provisions of the Small Business Act, I shall comment further on these and indicate how I think they should be expanded.

There is an additional area, however, in which small business suffers serious handicaps and in which, so far, a fully adequate program has yet to be developed. That is the area of finance.

Conditions are not alike in every region of the country and the availability of suitable financing varies from one community to an-



other. By and large, however, the smaller units of American business suffer handicaps in securing the financing which their health and survival require. A very important factor is the increase in financial requirements which has resulted from the larger amounts of fixed capital necessary for efficient operation under modern technology. Another important factor, of course, is the impact of taxation both on the small business itself and on the availability of equity capital.

The CHAIRMAN. Right there, Mr. Secretary, Senator Robertson called attention to that statement. You have heard what he had to say. Do you think this new bill will relieve some of this impact of taxation?

Mr. SAWYER. You mean the bill that is now before the House?

The CHAIRMAN. Yes.

Mr. SAWYER. From what I understand of its provisions, I think it will; and, of course, as I think the members of the committee all know, I made such a recommendation to the President after my tour last fall. I am in complete agreement with the Senator.

The CHAIRMAN. The tax issue is the main problem, one of the main problems?

Mr. SAWYER. It is one of the main problems; there is certainly no doubt about that, and any relief which can be given to the small-business concern will have two effects:

In the first place, it will enable the operator of the business to put a little more of his capital into reserves and thus strengthen his own position, and it will make investment in the small-business concern a little more attractive to outsiders.

The CHAIRMAN. Mr. Secretary, have you studied the financial borrowings of the small businesses at all? I mean, do they borrow from the local banks?

Mr. SAWYER. My Department has; yes, and I have, of course, discussed the matter at some length.

The CHAIRMAN. Do you not think this FDIC bill which we passed and which is now before the House on which they are having hearings, together with other bills that increase the guaranties from \$5,000 to \$10,000, would lead to the leaving of more funds in local banks, if they are insured for \$10,000, rather than sending them to larger banks, and would that not make more money available for small business?

Mr. SAWYER. I do not feel competent to comment on that bill. I only know generally of its provisions, but I should think it might have that general effect; yes.

The CHAIRMAN. In other words, there would be more money left in the little local bank in the backwoods and not sent to the big city banks, because they would be insured for \$10,000 instead of \$5,000?

Mr. SAWYER. It would seem to me it would have that effect. As to what effect that would have on the willingness of the local banks to make loans to small business, I am not so sure.

The CHAIRMAN. I think they would have the capital to do it with.

Mr. SAWYER. At least, they would have the money there.

The CHAIRMAN. I thought that would be quite an aid to small business.

Mr. SAWYER. Of course, there are a number of factors involved in the problems of small business, but I am in complete agreement with

the Senator that the tax problem is certainly one of the most important, if not the most important one.

For this and a number of other reasons, capital which in earlier generations was substantially supplied by friends and relatives is no longer available in adequate amounts. The financial titles of the pending bill address themselves to this set of problems.

To understand these financial titles of the bill, we need to emphasize the idea that a small-business man may have trouble getting adequately financed even though nothing is wrong with his business or its prospects. It is possible that our financial machinery has not developed in full accord with the needs of the community. The whole structure of modern consumer-installment finance is a reminder that new economic circumstances call for departures from established ways, departures that may be long overdue before they occur in any significant measure.

Consider for a moment what the state of our economy would be today if the financial standards of our fathers and grandfathers were still to apply to consumer buying. What would production in Detroit be today? What would employment and income be? And consider how many other industries are dependent upon installment credit and how important they loom, as a group, in the national economy.

It is always possible, too, that well-established financial institutions function with less than the fullest capacity. It is small comfort to an individual businessman to know that at the other end of the country successful bankers every day grant loans such as he is seeking.

With respect to the need for a new instrument of equity financing, may I refer you to the findings of a study made by our Office of Business Economics. This study was concerned with the capital sources drawn upon by the nearly 166,000 new manufacturing concerns which entered business during the period 1945-47. Their total financing was approximately 2 billion dollars, or an average of about \$12,000 each. Of this total initial capital, 60 percent was provided from the savings of the owners, 15 percent by friends and relatives, and the remaining 25 percent came about equally from supplier credit and bank advances. Over half of the bank advances was of long-term character, with mortgages of residential property securing a sizable proportion. It is noteworthy that the amount of capital obtained through the security markets was negligible. Our studies of firms entering wholesale and retail trade reveal a similar pattern, with the security markets again outside the picture.

The mortgaging of the small-business man's home may evidence praiseworthy enterprise and determination, but this fact, taken together with the rest of the pattern revealed, suggests that our financial machinery may not be as well adapted to the needs of new businessmen as it should be.

The same studies reveal further that the firms which went out of business after 12 to 18 months were predominantly those whose initial capital was low. We cannot say, of course, to what extent these business closings could have been avoided if the initial capital had been larger, or to what extent the community has suffered because of them. Nor can we make any estimate of the number and importance of additional new businesses that might have been formed successfully if financing had been more adequate. Studies such as these are suggestive rather than definitive. We know all too little about the degree

to which small business is thwarted by inadequate financing. In the nature of the case, we can learn how great is the need for additional financing only in the course of seeking to provide it. What little we know suggests, however, that efforts to open new paths of financing are likely to prove fruitful.

As I shall explain in connection with title I of the bill, there is practical experience to indicate that the scheme of loan insurance proposed in that title will meet a genuine need and do so through the private banking system without cost to the Government. The provision of equity capital in title II is another and, frankly experimental, matter. It, too, contemplates the mobilization of private funds, with the Government remaining in the background, but providing the mechanism through which such private funds are channeled into small enterprises.

These financial titles of the bill rely upon private financing. It is not proposed that the Government shall step in with public funds to make good the real or imaginal deficiencies of private financial institutions. What is proposed is that the Government, by provision of a self-supporting insurance scheme on the one hand and, on the other, by establishing a new type of institution with certain tax provisions recognizing their special character, shall open the way for private financial institutions to meet more fully than at present the financial needs of small-business concerns.

I am myself convinced that the factor of taxation is so important that we must move, as soon as possible, to lessen the tax burden on the small business itself. However, tax remedies alone cannot remove the present gap in our financial structure as it bears on the availability of capital for small business. The present proposal recognizes the need to increase incentives and undertakes to do so at minimum cost to the Federal budget by limiting the tax advantages to new financing actually flowing into small business. I am persuaded that this experimental approach can be valuable.

With this general introduction, I turn now to the several titles of the Small Business Act of 1950.

Title I of this bill, in brief, would encourage commercial banks to make more term loans to small businesses by authorizing the insurance of such banks against losses which they might sustain from small-business loans. This title represents a modest approach to the financial needs of the very small components of the business community. The proposal limits the amount of loans to any one firm or businessman for business purposes to \$25,000 and for a maximum term of 5 years. These limitations are not estimates, but are based on a large body of commercial banking experience. In my judgment, most small-business loans made hereunder would be for a much lesser amount and for a term of 3 years or less. The maximum premium proposed for the insurance granted is based on banking experience and Government's experience with housing improvement loans. The rate of 1.5 percent on the original amount of the loan fully recognizes the degree of risk in such small-business loans. I am of the opinion that this program is a well-considered approach to the recognized need of small business for credit for the following reasons:

First, it utilizes private businesses in the form of commercial banks to carry out the program. The measure does not contemplate prior

review by the Department of Commerce of loans made by commercial banks and insured under the fund. The role of the Department would be that of establishing, administering, directing, and promoting the insurance-fund operation.

Second, it will be operated substantially without expenditures of Government funds. The use of Government funds will be limited to the provision of an initial reserve which will be repaid from the insurance premiums. It is contemplated that because of wide diversity possible under the plan and the low percentage of loss on small-business loans reported by banks which already operate such a plan—a fraction of 1 percent—the premium for the insurance provided will make the program amply self-sustaining.

The CHAIRMAN. You say “banks which already operate such a plan.” What banks operate such a plan?

Mr. SAWYER. There are a number of banks that have employed, and I might say quite recently, programs for the purpose of increasing their small-loan business.

The CHAIRMAN. I realize that, but they are not running an insurance fund; are they?

Mr. SAWYER. No; they absorb the risk in charging the premium.

The CHAIRMAN. They absorb the risk, just as the losses might be absorbed out of a 90-percent guaranty?

Mr. SAWYER. That is right. The insurance fund will, of course, give more diversity and less risk to any particular loan or to any particular bank. That is the theory.

The CHAIRMAN. In other words, some of these banks who have been very progressive and have set up these small-business loans, have a special fund in there to which the losses are chargeable, and from the interest rate that they charge, and so forth, and so on, they have been able to avoid losing any money over-all, from what you understand?

Mr. SAWYER. They not only have not lost money, but they have done very well by it. Of course, you mentioned the Bank of America a while ago.

The CHAIRMAN. I was very much impressed by their testimony when they were here.

Mr. SAWYER. Their experience has been very stimulating and, of course, they have done an amazing job for small business; there is no doubt about that. This particular plan here, which originally was suggested by my Small Business Advisory Committee, came from a man by the name of Bimson, who is a banker in Phoenix, and not a fly-by-night banker, either. I think he has assets of \$200,000,000, or something like that. He has made these small loans over a period of years, and his experience has been startlingly successful.

The CHAIRMAN. Mr. Secretary, why do you not think more banks would do it?

Mr. SAWYER. More banks are doing it. Since we started this discussion, as you mentioned in your earlier remarks, since this whole thing has been brought out, there have been a number of banks in eastern cities, notably Chase and the National City in New York, and the Pennsylvania Corp. in Philadelphia, and one or two in Chicago, who have undertaken to give much more attention to small loans than they did. Their experience, I think, indicates to them there is a field there which has not been completely penetrated.

The CHAIRMAN. Reasonably small banks could set up these same plans also, could they not, in a more limited way?

Mr. SAWYER. That is a matter of judgment.

The CHAIRMAN. They may not have \$200,000,000 to do it, but if they had \$50,000,000 couldn't they do it just as well, if they wanted to?

Mr. SAWYER. I do not know what the amount of Mr. Bimson's small-loan operation is, but it runs into the millions. Mr. McCoy says he thinks it is about half, that about \$100,000,000 is involved in these small loans at Mr. Bimson's bank.

The CHAIRMAN. In other words, half of his assets?

Mr. SAWYER. Yes; half of his assets are involved in small loans; yes.

Third, responsibility of the local institution for 10 percent of an individual loss will assure its discrimination in making the loan as well as continued interest in the loan, in the welfare of the borrower, and in customary efforts to collect the full amount of such loans.

Fourth, a central insurance fund will enable participating banks to pool the risk on all loans covered, thereby gaining for each bank, however small, the advantages of diversification that are now available only to large banks. A number of these larger institutions which are able to undertake lending programs of sufficient size to assure satisfactory averaging out of risk have recognized the credit needs of soundly operated small businesses and have pioneered in making loans to such enterprises. The experience of these larger banks suggests that if the plan can be made available to all banks, regardless of size, the need for small-business credit will soon be reflected in a large additional volume of loans. The operation of the plan may have the effect of reinforcing the example of the larger banks which have already pioneered and induce some banks to undertake small-business loans without participating in the plan itself. Some banks will forego the use of this insurance fund and make the loans themselves, retaining all or part of the insurance premium. This is not an effective argument against the plan. The small-business man will get his loan, which is what we are after.

Finally, the successful experience of the Federal Government and the banks of the country in the similar field of insurance against losses resulting from loans made for home improvements under title I of the Housing Act should reassure those who are dubious of the value and efficacy of this proposal.

I am well aware that there are those who will say that the banks have done a good job and title I is unnecessary. I agree that many banks have done a good job of lending. However, when we find banks devoting as little as 5 to 7 percent of their assets to loans of all types, and in contrast, other banks devoting 60 percent or more of their assets to loans, it is evident that there is some room for improvement.

The CHAIRMAN. The banks certainly approved the real estate loans and certainly went to town—if I might use that expression—when they put the insurance plan for FHA and for other housing authorities in effect, did they not? All of the banks joined in that; whereas, now you see only a few banks helping small business. Is that right?

Mr. SAWYER. I think the history of that particular operation was that the banks regarded them with a good deal of skepticism at the beginning.

The CHAIRMAN. They certainly did

Mr. SAWYER. But later they looked upon it as one of their best sources for loans.

The CHAIRMAN. Nobody knows what the future will hold, but the Housing Authority has made, in addition to their loans being paid up to date, \$225,000,000 in fees that it saved from it, and people had a chance to build houses under this 90 percent housing program, which title I is similar to with respect to small business.

Mr. SAWYER. Yes, that was the house improvement provision, I think.

The CHAIRMAN. In other words, this ought to help the banks?

Mr. SAWYER. I think so.

The CHAIRMAN. It certainly is not going to hurt them.

Mr. SAWYER. I think not.

The CHAIRMAN. It will help private business.

Mr. SAWYER. I would not suggest either officially or personally anything that I thought would not help business and the banks.

The CHAIRMAN. Of course, you would not. I did not mean it that way. I meant that the banks ought to be enthusiastic, from the way I look at it. Whether they are, or not, of course I do not know.

Mr. SAWYER. That is, of course, for the banks to decide.

The CHAIRMAN. But they were skeptical of FHA and now they are enthusiastic about it, or they have been, certainly, because every time FNMA or FHA expired, since I have been on this committee, and that has been quite a while, they have always been anxious to have it renewed or extended or more money appropriated for it.

Mr. SAWYER. I understand that has been the experience.

When both extremes are found in the same community, this may not be serious. But a one-bank town—and there are thousands—may find its bank of limited value. Many individual bankers agree that the proposed provision in this title for loan insurance will stimulate a more liberal small-business credit program.

The CHAIRMAN. Do you have any letters from bankers to that effect?

Mr. SAWYER. I think Mr. Bimson has been contacting bankers.

The CHAIRMAN. Would you mind supplying for the record what banks believe this is a good thing, if it is not confidential information? I do not know how you work those things.

The clerk tells me that Mr. Bimson will be here Tuesday, so if you could provide us with the names of those banks, providing it is agreeable with the banks, we would appreciate that.

Mr. SAWYER. Mr. Bimson, himself, will be here. I do not know when you have arranged to have him.

The CHAIRMAN. Tuesday.

Mr. SAWYER. It recognizes fully the basic problems of small banking as well as small business. All too often, we fail to give proper recognition to the fact that banking is a small business, too. We must bear in mind, too, that about two-thirds of all the banks in the country have capital and surplus of less than \$200,000.

I may interject, Mr. Chairman, I made a speech before the American Bankers Association at Chicago a few months ago and pointed out these facts, and many of them were interested and fascinated to find that small business played such a small part in the banking business, as well as others.

This means that these banks located for the most part in thousands of small towns in the country have lending limits of under \$20,000;

it means that thousands of banks are too small to achieve a truly adequate diversification of loans or assume the burden of a small business loan program without some stimulation and protection such as that provided by the first two titles of this bill.

Recently one of my regional directors reported that a small firm which had operated in his city for some 16 or 17 years reviewed one of the Government business synopsis schedules which we publish daily in cooperation with the Department of Defense and the General Services Administration and found an item which he could make. He bid on the item and was awarded the contract for between eighty and ninety thousand dollars. The owner and manager of this firm employing about 60 men determined that he should increase his force to 100, purchase his materials for the Government job and purchase some small items for his shop so that he could make prompt and satisfactory delivery. He needed a loan of about \$15,000 to get this \$80,000 contract rolling. He went to the banker where he had kept his account for years. His banker told him that he would not make a loan to him on the basis of a Government contract. He went to four or five other banks in his city and received the same answer. My last information was to the effect that he planned to mortgage his home, borrow some money from a brother and try to get by on less funds and beg his suppliers to help him over the hump.

That represents the need which title I of this bill will meet.

Turning to title II, we find a different approach created to cope with a different type of financial problem. Many smaller firms experience difficulty in obtaining equity capital to maintain their operations and to provide a suitable credit base for borrowing additional funds or for obtaining credit extensions from suppliers.

In addition to equity financing there are many smaller businesses which need financing in amounts larger than \$25,000 and for terms longer than 5 years. The insured loan provisions of title I will not cover this type of borrowing, and commercial banks may not be expected to provide this type of credit.

In years gone by, these types of need for funds were met generally by the loans and equity investments of friends and relatives or by money of local investors. This is still true but only to a limited extent. In view of increased taxes and the reduced possibilities of gain without protection against loss, this source of equity capital has been greatly reduced. For a number of reasons, investors have become safety conscious, with a marked preference for Government and municipal bonds or high-grade stocks of the largest firms. New channels for small business capital need to be opened. It may take the form of straight equity financing—preferred stock, or in some cases, common stock. Or it may be a capital loan or debenture—often with a fairly long maturity and perhaps with additional features, such as a subordination to other debts or an interest payment made contingent on earnings. In each case it must be tailored to the specific needs of the particular business. Frequently it will require that different kinds of financing be combined—stocks with loans, one kind of loan with another, etc. In addition, small businesses often need to have assistance in the form of managerial aids and technical services in order to use the financing to best advantage.

There is today no class of institutions that are fully equipped to do the kind of tailor-made, case-by-case job that is needed. Selling

securities on the open market is virtually out of the question for small and medium-sized businesses. Insurance companies and investment trusts tend to concentrate on financing the larger, well-seasoned companies. Commercial banks generally will not take the risks involved or build up the specialized organizations required.

In short, there is an "institutional gap" in our financial machinery. It is not necessarily the fault of anyone, but it handicaps small businesses. It also deprives the economy of the vigor that could come from more and stronger small businesses—and it deprive other financial institutions of the outlets for their funds that such bolstered small businesses could provide.

This "institutional gap" is not new. But as pointed out in the President's message on small business, the problem has been growing more serious. The wider distribution of incomes has tended to place a larger and larger proportion of personal savings in the hands of people of moderate means who quite naturally tend to emphasize safety in their investments. They have neither the inclination nor the specialized skill to finance small business—and the same is true of the insurance companies, savings banks and similar institutions to which they entrust the bulk of their savings. At the same time, the complications of running a small business—or of giving it specialized financing—have greatly increased in recent years due to the rapid advances in managerial and technological techniques.

The job of plugging this gap will be difficult. Whether or not it can be plugged satisfactorily remains to be seen.

Title II attempts to solve the problem by providing for the organization of national investment companies under the guidance of the Federal Reserve Board. In order to assure sufficient funds in the early days of the companies, Federal Reserve banks would be authorized to invest in stock of the company, but with suitable safeguards as to amount. Member banks would also be authorized to invest in such stock with similar safeguards. The Reserve banks would be required to sell their stock in the companies at any time upon the request of any bank or other purchaser.

These companies would be authorized to provide credit and capital by making loans to, or acquiring stock or bonds of business enterprises falling within standards of eligibility established by the Federal Reserve Board after consultation with the Secretary of Commerce. Small businesses which do not have reasonable access to facilities for credit and equity financing would, in general, be eligible for the financing provided by these companies.

To be chartered, an investment company must have a paid-in capital of at least \$5,000,000. Each company would be further authorized to borrow an amount not to exceed the amount of its paid in capital and surplus. To encourage widespread financing of small business, certain limitations are established by this bill with respect to the amount of financing to any one eligible enterprise which may be acquired by any one investment company. The investment company would work in close cooperation with banks and other financial institutions in the region it serves, and would take such facilities into full account. It could often participate jointly with local banks in financing business with good earning prospects in cases where lending policies prevent the banks from providing all the funds required or where



the business needs more equity capital which banks cannot legally provide.

In many other cases banks could handle the servicing and initial investigation for the company's financings. In other words, the investment company could be of benefit not only to small business and the general community, but also to other financial institutions as well. These institutions would help in many cases to make better customers for the banks.

The tax treatment of national investment companies would be designed so as to enable these companies to make their maximum contribution to small business.

The tax provisions of this title authorize national investment companies to accumulate a reserve equal to 50 percent of their invested capital, a privilege which is not accorded existing regulated investment companies. Twenty percent of this reserve may be developed from income regardless of source and without any income tax payment thereon. The additional 30 percent portion of the reserve may be accumulated from income resulting from dividends received on which a tax of only 5.7 percent would be paid since an 85 percent dividend received credit would be allowed. When the total reserve accumulated equals 50 percent of total invested capital, the national investment companies would be required to distribute 90 percent of current earnings in order to receive the tax privileges accorded existing regulated investment companies.

In my opinion, the national investment company is experimental. We shall never know whether or not it will work unless it is tried—and I believe it is worth a trial. It will be handled by the Federal Reserve System, where it will have the benefit of wide and sound financial experience. It cannot, of course, perform miracles, and will furnish no substitute for the ambition and courage and ingenuity which enables one business to succeed where another fails.

A few days ago, my attention was directed to a small firm in the Midwest employing 47 people and producing a high-grade line of latex overshoes and ladies boots. The firm enjoys a fair national business amounting to about one-half million dollars annually. It is located in a small town. The principal owner and manager is a high-grade technician, as well as executive. The demand for his present product now exceeds the capacity of his well-operated plant. His designer has developed additional products which have the endorsement of his present dealers. Today, because he is undercapitalized, he cannot back up his dealers with national advertising, he cannot expand his plant to meet current demand, and he cannot introduce his line of new items. Local banks cannot lend his requirements because of their own limited capital. Local citizens do not have adequate funds to purchase sufficient shares in his business and his business is too small to utilize security markets.

This firm is typical of thousands throughout the country which are stymied in their national progress by this "institutional gap" in our financial system and which, I believe, would find the national investment companies to be the answer to their problem in providing the funds which they need.

Chairman McCabe of the Federal Reserve Board who will appear before you a little later will discuss with you the details of title II

and submit better than I can the needs for and methods of operating the national investment companies.

With the commercial banks' facilities enlarged as a result of the insured loan plan and with the "institutional gap" plugged by national investment companies, the need for direct Government lending would be effectively reduced. Today RFC is authorized to extend financial assistance when the credit is not otherwise available on reasonable terms either from banks or other sources.

Title III of this bill specifically designates the national investment company as one of the "other source" which must be explored by a potential borrower before he can secure a loan from RFC. Title III would also authorize RFC to make loans to small creditworthy firms which may not have adequate collateral under existing lending criteria provided that management abilities, potential earnings and other factors give reasonable promise that such a loan will be repaid. Other changes relate to the extension of the maximum term for RFC business loans from 10 to 15 years and authorize appropriate negotiation of time limitation, in excess of 15 years, when the loan is necessary for national defense purposes.

It is believed that the advance made by the Treasury to furnish an initial reserve under title I would be repaid shortly. The national investment companies created in title II would be financed and operated with funds subscribed by Federal Reserve banks and private investors. Title III will not necessarily affect the amount of money currently used by the RFC, while title IV represents purely the cancellation of a function no longer needed and will involve returning to the Treasury a sum of \$139,000,000, or nearly 14 times the amount the Treasury is asked to advance to initiate title I.

Technical and managerial assistance to small business was recommended by the President in his message on small business as a way to overcome what he referred to as the second great handicap to the growth of America's smaller firms: "The cost and difficulty of keeping abreast of new techniques of production and management."

Recent studies by the Department of Commerce have served to underline the importance of management aids in the success of a small firm. Large concerns can afford the overhead involved in maintaining staff officials, research departments, and often extensive laboratories to keep abreast of economic and technical advances. Their small competitors are not so well equipped to share in new development, and in those which have proved their productive and competitive value.

Title V deals with two broad areas of small-business assistance: The commercial or business-management end of the business, and the technological or production function.

The Department has, of course, long been furnishing American business firms, large and small, with economic, marketing, and statistical information to assist them in making business decisions in the conduct of their affairs. These types of data have never provided cut-and-dried answers to business problems, and no Government informational activity ever could hope to do this. They do, on the other hand, provide both tools for successful management and measuring rods against which individual firms may evaluate their own operations.

That the Department of Commerce should act as a clearinghouse for various types of business information was one of the key recommendations of the postwar survey made by the Committee for Economic Development. In recent months we have extended the clearinghouse approach to the matter of Federal procurement, one of the fields in which there is plain and continuing need of service to protect the legitimate interest of small business.

Under the authority of title V the Department would give renewed emphasis to programs of research and the encouragement of research by universities and other appropriate bodies and the accumulation of a body of practical information to be made available to businessmen through all appropriate channels on managerial and financial practices, marketing techniques, and related business operations. It would stimulate instruction in the management of small businesses by collegiate schools of business. It would interest these educators and others in organizing and conducting conferences, clinics, and institutes at which the proprietors of small firms could discuss current management problems and keep themselves informed on new and sound practices. It would also increase its work, in cooperation with other public and private bodies, to assist the businessmen and other citizens of specific areas in improving the economic development of those areas and thus strengthen the foundation of competitive business there.

The Department is presently authorized to foster, promote, and develop commerce. We have undertaken, under this broad authority, on a necessarily limited basis, activities such as those detailed in title V, but I urge Congress to express itself specifically with respect to the emphasis which I believe should be placed on these aids to small business. Such an expression will be invaluable to my Department when laying out a program for this purpose and to the members of the Appropriations Committees of the Congress in evaluating the need for funds for such programs.

In the technological field new methods and techniques are arising with bewildering rapidity, and it is often impossible for the businessman to locate sources of information on a given technical question. Much can be done simply through a compilation of available sources of data, particularly since the Federal research activities have made the Government itself a prime authority in many technical areas. In addition to this, there is need for actual creative research on behalf of small business in certain specific types of situations.

The most specific mandate in the technical and management aid section of title V is the authority to "undertake \* \* \* engineering and technological research" on matters of interest to small business. This authority applies either to Government laboratories or to private facilities. The authority is specifically qualified with the restriction that the research undertaken should not be of a nature that would be achieved, within reasonable time, through the efforts of other public or private groups.

In undertaking such programs, the Department itself would impose additional restrictions. No research would be initiated without tangible and widespread endorsement of business firms, usually to be provided in the form of cooperative services or funds. Research would be placed in the laboratory facility best qualified for the work—governmental or nongovernmental. Thus our National Bureau of Stand-

ards would undertake work in its fields of special competence; but projects would be assigned to a research foundation, a State university, a commercial laboratory, or a development firm when such an organization is deemed better qualified by facilities or otherwise to undertake such projects.

Research undertaken would invariably fall into the "bench mark" or "background" area. That is, projects would be of such broad importance that a large number of independent firms could profit from the findings. They would carry the work to the point where individual commercial initiative could be brought into play. They would not be designed to produce directly new products or new processes analogous with or competitive to proprietary developments.

To illustrate specifically: The National Bureau of Standards might be provided with funds to extend its researches into miniature electronic components, so as to provide necessary basic data for the host of manufacturers interested in supersmall radios, handy-talky equipment, etc. Regional research organizations might secure underwriting for investigations of local resources and materials that might furnish the foundations of new industries.

The Department, again under its general authority, undertook a modest venture into the field of federally sponsored technological research for the aid of small business using a special appropriation made by Congress for the fiscal year 1947. The success of these essentially experimental efforts encourages us to predict great usefulness for the type of research endeavor contemplated in the present bill. An analysis of the specific results of projects undertaken appears in the study by the President's Scientific Research Board and includes such outstanding practical contributions to business as the studies which pointed the way to the full utilization of fish waste; the development of lightweight fireproof tile walls; the design of low-cost air conditioning equipment which can be fabricated by small local industry; and the development of methods for the production of rot-resisting fabrics and cordage from United States grown fibers.

Appropriations for the continuation of this research program since 1947 were requested but denied by the Congress on the grounds that the request was not supported by substantive legislation. In view of this action it is essential that specific legislative authority, as provided by S. 3625, be enacted if the Department is to undertake any such program which has already demonstrated its worth to small business.

In some cases services of the character proposed in this title are properly subject to payment of fees. In these cases fees are justified because, although the program serves a public purpose, special benefits are derived by clearly identified groups. In other cases it is important to set a price so that publications will not be wasted just because they are free. Section 504 authorizes the Secretary to collect reasonable charges for services performed or publications furnished under this title and to establish a revolving fund in which receipts will be deposited. It also authorizes the Secretary, when in his judgment the functions will be more effectively, more rapidly, or more economically performed by contract than by the Department itself, to enter into contracts for the performance of such functions by public or private organizations or individuals.

In closing this general support for the Small Business Act of 1950 I wish to emphasize again my conviction that this is a practical approach to some of the major problems of small business. The bill represents the product of extended study by the Congress and the executive department.

In my opinion the emphasis on private business and private initiative rather than Government subsidy and Government interference is consistent with a philosophy which is important to successful business and Government relations. Here we have a form of basic legislation which will cost the Government practically nothing but which will have a beneficial influence on the prosperity and expansion of our economy. It seems to me that it is time to do more than talk about small business and make this initial start on a continuing program of action. I therefore recommend this basic small-business legislation for enactment.

The CHAIRMAN. Mr. Secretary, you are familiar with title I of FHA, are you not?

Mr. SAWYER. Only reasonably so.

The CHAIRMAN. I know you have studied carefully title I of this bill. Have you made any study of the slight difference between the two titles, the one in FHA and the one in this bill?

Mr. SAWYER. No; I cannot say that I have.

The CHAIRMAN. Would you make a study of that, Mr. McCoy, and present it for the record when you appear here to testify? There is a slight difference. Will you gentlemen bring it out clearly for the record?

Mr. McCoy. Certainly.

(The following was later supplied for the record:)

SUMMARY OF DIFFERENCES BETWEEN TITLE I OF S. 3625 AND FHA TITLE I

Title I of S. 3625 would establish a system for insuring business loans in a manner similar to the present system for insuring loans for the repair and modernization of real estate under title I of the Federal Housing Act. The essential similarity as well as the importance differences are summarized below:

	S. 3625 title I	FHA title I
Proportion of outstanding balance of individual loan covered by insurance.	90 percent.....	100 percent.
Amount of total insurance reserve credited to individual financial institutions expressed as percentage of total loans made.	10 percent.....	10 percent.
Maximum insurance premium expressed as percentage of net proceeds of loan.	1¼ percent.....	¾ percent.
Maximum loan.....	\$25,000.....	\$2,500.
Maximum term.....	5 years and 32 days.	3 years and 32 days.
Maximum interest.....	To be set by regulations.	5 percent discount per year.
Purpose.....	Any ordinary business purpose.	Normal repair, alteration, or improvement of existing structure.

FHA title I also provides for longer terms and larger amounts in the case of alterations or conversions of existing structures to be used by two or more families for the construction of small buildings or for the construction of new buildings for agricultural purposes exclusive of farm residential structures.

While the FHA title I system began operations in 1934, it has charged insurance premiums only in the period since July 1, 1939. In this period, in-

insurance has been written on 8,136,000 property-improvement loans with net proceeds aggregating \$3,222,703,000.

In the period since July 1, 1939, premiums collected on insurance have been in excess of net losses on the insured loans. At the present time, banks and other lenders in the country are making FHA title I loans at the rate of about \$50,000,000 a month and the system is on a completely self-supporting basis. It is to be expected that losses on business loans would be larger than is true of the comparatively uniform type of lending represented by housing loans. However, small-business loans will be extremely numerous and in modest amounts and can be based on essentially the same personal factors as is true with housing loans.

Accordingly, it is believed that with a 1½-percent insurance rate plus a 90-percent insurance ratio for business loans (in contrast with the 100 percent provided by FHA) the title I system provided under S. 3625 will operate on a self-supporting basis.

Senator ROBERTSON. Mr. Secretary, we have pending before us six bills. You have brought out the principles of those bills in a general way by your statement, so I will just ask you some general questions without analyzing any of the pending measures.

Do you believe in the American system of competitive enterprise?

Mr. SAWYER. Yes, sir; definitely.

Senator ROBERTSON. Is it true that with 7 percent of the population of the world we are now producing 50 percent of the wealth of the world?

Mr. SAWYER. I am not certain of the statistics but I know it is a very large proportion.

Senator ROBERTSON. Do you know of any foreign nation that has a counterpart of the American private enterprise system?

Mr. SAWYER. No.

Senator ROBERTSON. Is it not true that even those nations we refer to now as democracies have, to a considerable extent, diluted their economic systems by socialism?

Mr. SAWYER. I would not qualify as an expert to answer that question.

Senator ROBERTSON. You have read in the press, though, that there is some trend in that direction?

Mr. SAWYER. There is a certain trend in that direction in some countries, yes.

Senator ROBERTSON. You have read Mr. Hugh Dalton's statement that so far as the Labor Party in Great Britain is concerned they did not like the proposed integration plan for western Europe and the unified control of steel and iron in France, Germany, Luxemburg, Belgium, and a few others, because the nations proposing that had not gone far enough in socialism to suit him?

Mr. SAWYER. I saw some such statement; yes.

Senator ROBERTSON. In referring to small business are you referring to small partnerships and small corporations that are producing something to sell?

Mr. SAWYER. Yes, among others.

Senator ROBERTSON. Is the purchasing power of consumers of vital interest to those who are producing something to sell?

Mr. SAWYER. I made a speech last week at Harvard at which I undertook to emphasize that.

Senator ROBERTSON. If we take steps to help the purchasing power of all consumers have we helped small business?

Mr. SAWYER. I think so, definitely.

Senator ROBERTSON. Is it true that the purchasing power of consumers in 1950 is only 60 percent of what it was in 1939?

Mr. SAWYER. You mean actually or relatively?

Senator ROBERTSON. Actually.

Mr. SAWYER. No, I do not think so.

Senator ROBERTSON. The purchasing power of the dollar today, what a dollar will buy?

Mr. SAWYER. That involves a valuing of the dollar. I do not know what the figures are but certainly the dollar is cheaper than it was, there is no doubt about that. In other words we have had a little inflation in those 10 years.

Senator ROBERTSON. We have had a little inflation. I have not done the arithmetic to get the exact figures but the statisticians say, and I take their word for it, that we are dealing with 60 cents on the dollar of 1939.

Mr. SAWYER. There is no doubt, without fixing a percentage, that that statement is correct.

Senator ROBERTSON. Is it not true that the white-collar salaried group in the salary range from \$3,000 to \$5,000 a year, after taxes, is earning less than it was in 1939?

Mr. SAWYER. You mean the actual dollars are less or the relative purchasing power?

Senator ROBERTSON. I mean that the average white-collar man in the salary range from \$3,000 to \$5,000 can buy less of goods and services with his present income, after taxes, than he could have bought with the income he was getting in 1939, although that was substantially less?

Mr. SAWYER. I am not sure of that situation but I could well believe it to be true. He has not had a comparable increase in income, if that is what you mean.

Senator ROBERTSON. Have you read the article in July Readers Digest by John T. Flynn in which he cites specific instances of men who had a given salary in 1939, stating what the tax liability then was, and then he showed the increase in salary and what the tax liability now is? He arrived at their net purchasing power and said that on the basis of a 60-cent dollar his standard of living is less than what it was in 1939.

Mr. SAWYER. I did not read the article.

Senator ROBERTSON. I commend it to you. I think you will find it interesting. He is a right responsible economist and from what knowledge I have of taxes, inflation and what not, I think his article is very soundly conceived.

Is the 60-cent dollar largely due to the fact that since the war the supply of money in the market places has increased faster than the supply of goods and services for which those dollars compete?

Mr. SAWYER. I am not sure that I get the question.

Senator ROBERTSON. Is it a fact that what you have referred to as "price inflation," which has reduced the 1939 dollar to the purchasing value of a 60-cent dollar, is primarily due to the fact that since the war there have been more dollars in the market places than there have been goods and services to be exchanged for dollars?

Mr. SAWYER. That may have been a contributing factor.

Senator ROBERTSON. If you know of any single factor that has had a more major influence on that I would like you to mention it.

Mr. SAWYER. If what you are asking me is what are the causes of inflationary trend I would not pose as an expert or an economist to answer that, but I suppose the supply of money, as you say, is a contributory factor. Tax policies, increase in wages, increases in costs of goods; there are a good many things that enter into an inflationary trend.

Senator ROBERTSON. Is it not a fact that we have three times as much money in circulation today as we had before the war?

Mr. SAWYER. I do not know.

Senator ROBERTSON. I think it is. And certainly production has not increased 300 percent. How much has production increased?

Mr. SAWYER. It has increased tremendously; I do not know how much.

Senator ROBERTSON. Less than 80 percent, has it not?

Mr. SAWYER. I do not know.

Senator ROBERTSON. I did understand you to say that we had some price inflation, is that correct?

Mr. SAWYER. I said the dollar was cheaper today than it was in 1938. I think there is no doubt about that.

Senator ROBERTSON. We do not admit that we have any currency inflation yet, do we?

Mr. SAWYER. I do not know what we admit or do not admit.

Senator ROBERTSON. We have not started putting out any printing-press money yet, have we?

Mr. SAWYER. We have not started printing-press money yet; no, we have not done that.

Senator ROBERTSON. So if we have price inflation with a great deal more money in the market places for the purchase of goods and services than we had before the war, before 1939, and it is not due to printing-press money, it must be due to the surplus of money that is created in other ways, is that not correct?

Mr. SAWYER. I am not sure that it is. I myself think it would be desirable if we could begin to get some prices down. As to how that can be accomplished I am not so sure. Of course, the thing that puts prices up is demand. There still seems to be a very vigorous demand for everything.

I think perhaps a little restraint in connection with consumer credit might be beneficial.

Senator ROBERTSON. I have heard that consumer credit is now at an all time high, exceeding \$18,000,000,000, is that true?

Mr. SAWYER. I think it is actually at an all time high, on a dollar basis although I think, relatively that is, the percentage of total consumer credit to dollar sales is not as high as it has been, but it is certainly going up.

Senator ROBERTSON. Does it exceed \$18,000,000,000?

Mr. SAWYER. I do not know the figures but it is very high and, as I say, business might very well give some attention to some restraint along that line.

Senator ROBERTSON. That is the very point I am trying to develop. If consumer credit exceeds \$18,000,000,000 there are \$18,000,000,000 going into the market place to compete for goods and services that have not yet been earned by the man who does the buying, is that not true?



Mr. SAWYER. But the problem in connection with consumer credit, as I see it, is the danger that something may happen which will prevent the man from meeting his payments, and when that happens the cumulative effect would be very bad. I do not think a suggestion that consumer credit might be restricted should be interpreted to mean that general credit should not be continued to be extended, or for that matter consumer credit.

Senator ROBERTSON. When a man buys on credit it means he is getting the goods now and promises to pay for them when he earns the money at some future date, is that not correct?

Mr. SAWYER. Originally he made a part payment. Now I understand you can buy quite a few things and pay nothing down.

The CHAIRMAN. This committee took out the consumer credit provision by unanimous vote.

Senator ROBERTSON. It was testified before the sub-committee on the Post Office and Treasury that our total debt, direct and indirect now exceeds \$300,000,000,000. Does that disturb you?

Mr. SAWYER. Debt always disturbs me. I am a Yankee.

Senator ROBERTSON. That is an all time high for debt, too, is it not?

Mr. SAWYER. I think so.

The CHAIRMAN. Mr. Secretary, I might say that there are other people than Yankees concerned about that.

Mr. SAWYER. I realize that. That sentiment is not confined to any particular part of the country.

Senator CAPEHART. I wonder if it goes any further than being concerned.

Senator ROBERTSON. What is the deficit we face on June 30 at this time?

Mr. SAWYER. I did not get the question.

Senator ROBERTSON. What is the deficit, the difference between what we will have spent in fiscal 1950, what we have spent in the fiscal year that ends on the 30th of this month, and what we have collected? What is that difference said to be, added up in red ink on the Treasury books?

Mr. SAWYER. I do not know; I have seen various estimates. I certainly would not undertake to give the figure because I do not know what it is.

Senator ROBERTSON. Is it in the neighborhood of \$5,000,000,000?

Mr. SAWYER. I have heard recently it will be down below \$4,000,000,000, but I do not know.

Senator ROBERTSON. What was the deficit that the President predicted for the coming fiscal year, fiscal 1951?

Mr. SAWYER. I do not remember.

Senator ROBERTSON. I think it is 5 billion 4, and the House reduced his budget by \$1,100,000,000. Since that time he has sent a request for military assistance abroad of \$1,200,000,000. If the Senate acts on that bill before we finish writing up the appropriation bill the Senate Appropriations Committee will vote whether to add that to the bill, or not.

The House put in chapter 10(a) an over-all cut in various departments, which was calculated to reduce the budget some \$600,000,000. Then one of the House members came over and testified before us with respect to the Post Office Department that that cut was not at

all feasible and practicable, just could not be done; that with respect to the FBI field agents it would not be wise to cut them down and with respect to field agents for the Treasury Department it would not be wise to cut them down.

Others have come in and told us that their operations would be very much hamstrung if we did not ease them out of the Taber amendment and the Jensen amendment.

So, nobody knows yet just what the total of the bill is that the Appropriations Committee is going to appropriate, but my guess is that even without a tax bill which further reduces revenue we still face an approximately \$5,000,000,000 deficit for fiscal '51.

How does the Government meet a \$5,000,000,000 deficit?

Mr. SAWYER. I am not sure I know what you mean by "How does it meet it?"

Senator ROBERTSON. How does it get the money? If you spend more than you take in you have a deficit. How do you get it back if you spend it?

Mr. SAWYER. Eventually you are going to have to do it through financing, the issuance of bonds, and so forth.

Senator ROBERTSON. You issue bonds?

Mr. SAWYER. You have a large refinancing operation, on which I certainly do not pretend to be an expert.

Senator ROBERTSON. You would sell some of those bonds to private individuals and corporations and some to commercial banks, and then what is left over the Federal Reserve System would have to absorb?

Mr. SAWYER. Yes.

Senator ROBERTSON. Now, when the Federal Reserve bank gets a bond for \$1,000, which draws interest, let us say, at 2 percent or 2½ percent, can it then issue a \$1,000 bank note that is money?

Mr. SAWYER. There are too many questions involved in that one question. You might ask the head of the Federal Reserve or the Secretary of the Treasury that question.

Senator ROBERTSON. Let us simplify the question, then. I am just asking these questions in the hope that somebody who does not know the intricacies of Government financing might read this record and get some information about what causes price inflation.

Is it not true that if we go in the red in Government financing in the amount of \$5,000,000,000, we issue, in effect, \$5,000,000,000 more money and put it in circulation?

Mr. SAWYER. That perhaps is an oversimplification, but I suppose fundamentally that is true.

Senator ROBERTSON. As one of the committee clerks said, when you add credit possibilities of \$1 in resources and \$10 in credit to a bank it would be very much more than that, but I am talking about actual currency in circulation.

Deficit financing, in other words, is in itself inflationary?

Mr. SAWYER. I agree that it has that tendency; yes.

Senator ROBERTSON. And that is what we call or that is what results in price inflation, whether it is the total cause or not?

Mr. SAWYER. Yes.

Senator ROBERTSON. The issuance of new money that has not been worked for, that has not been paid in taxes, earned by the sweat of the brow, dilutes the buying strength. It makes more money go into

the market places to compete, necessarily, without any compensatory increase in the production of goods and services to be exchanged for those dollars?

Mr. SAWYER. It has inflationary tendencies; there is no doubt about it.

Senator ROBERTSON. If that is true and we should be somewhat concerned about the amount of consumer credit now, about a debt of over \$300,000,000,000, about a deficit of \$5,000,000,000 this year, and maybe more than \$5,000,000,000 next year, nobody knowing when we are going to get a balanced budget; and if it be true that small business is vitally interested in consumer buying power, which is not the number of dollars that the consumer has but what those dollars will buy in goods and services, will it be fundamentally sound to help small business by knocking the bung hole out of the Treasury and turn loose a lot of new, easy money?

Mr. SAWYER. I suppose your questions are directed at the bill I am discussing. It seems to me there is nothing unsound about providing credit by which the small-business man can increase his product. Theoretically, at least, if he is able to operate more economically, the consumer to whom you have referred will get more for the dollar than he did before.

Senator ROBERTSON. Mr. Secretary, you have told me—and I know it as fundamentally true—that you are a firm believer in the American system of private competitive enterprise. I do not say “free” enterprise because I think we have reached the economic status where Government has to regulate it. There is a vast difference between regulating enterprise and planning it.

As a believer in that American system, which would you prefer: to see private industry financed by private financial institutions and production controlled by private individuals, or industry financed by the Government and ultimately controlled by the Government?

Mr. SAWYER. The answer to that alternative, as stated as clearly as you have stated it, is very simple to me. Of course, I would prefer to see it financed by private institutions, but I do not think this bill violates that principle.

Senator ROBERTSON. I was just leading up to that question. Now, may I ask this final question:

During the past 2 years as chairman of the subcommittee on Federal Reserve matters, I have been in quite close touch with the bankers of the Nation. They tell me that never in our history have the private banks of this country done a better job in financing creditworthy needs of small business. Is that statement correct?

Mr. SAWYER. It probably is; they are doing a better job now than they have. It seems to me there is another question: Are they doing the best job they can do, or is there any other method by which the small-business man who, by reason of technological advance and the greater complications of our industrial system today, has difficulty in getting money, is there any reason why we should not make an effort to get him that money? That is really the question that faces us here?

Senator ROBERTSON. That is a fair question, but if you are going to give it to him under one of those bills under the Department of Commerce where will you get it?

Mr. SAWYER. We are not going to give him any money. This is a point I had hoped to make clear here. As far as the loans to the very small-business men under title I are concerned, those loans will all be made by existing banks. In other words, if the banks will not make the loans he will not get any.

Senator ROBERTSON. Then, you do not approve the provision in one of these bills that you shall have the power to make loans to small business for less security than the security now required for an RFC loan, which, in the case of Lustron, for instance, was not very large?

Mr. SAWYER. If you refer to the provision with reference to RFC and the possibility that the collateral restrictions at the moment will not be effective—which I assume is what you have in mind—it does not seem to me that would require, and certainly if I had anything to do with RFC it would not make effective any program by which anything but a good loan would be made.

I am perfectly willing to agree with you that we cannot build any sound economy on making poor loans, whether it is done with or without the encouragement of the Government. I am in complete agreement with that.

Senator ROBERTSON. Knowing you as I do, I felt sure you would agree with me on that. As I indicated at the beginning before we went into your statement, I would oppose any action of our Government to go into a program of making unsound loans to help a small group of businessmen at the expense of all the taxpayers in the Nation. That is what it would amount to.

Mr. SAWYER. I would agree with you completely.

The CHAIRMAN. I want to make sure the record shows I will not vote for any such scheme as that. As I understand, this is going to be purely private financing; is that correct?

Mr. SAWYER. There will not be one single loan made, as I understand the provision of the bill, unless a particular bank wants to make the loan. The Government will not put up a dime for loans to business.

Senator CAPEHART. Mr. Chairman, may I ask this question?

If the Government is going to make no loans except only to make good loans, if they are good loans will not the bank make them without the Government?

Mr. SAWYER. Not necessarily.

Senator CAPEHART. Why?

Mr. SAWYER. I answered some questions that were asked before you came in, Senator. I thought that within the last year there had been obviously a change in the attitude of banks toward small loans, and as they have gone into that field and explored its possibilities they have found there was a field there which they had not been operating in to the fullest extent. I do not think there is any doubt about that.

For instance, in California where the Bank of America groups have cultivated particularly the small-loan business. They have done a volume of business and a variety of business far in excess of what has been done in other parts of the country, and they have proved, I think, that it can be done.

This man Bimson, who made the suggestion with reference to title I originally to my Small Business Advisory Committee and who himself is a substantial banker, has demonstrated that there is a field there which has been explored by some banks and utilized or exploited, but not by others.

I think the answer to your question is not necessarily that the banks have done everything they could do. And I am not criticizing the banks; quite the contrary.

Senator CAPEHART. The point is, you say you would never approve a bad loan.

Mr. SAWYER. I will stand on that statement; yes.

Senator CAPEHART. Every bank in the Nation will take a good loan; will they not?

Mr. SAWYER. There is a wide margin of judgment, no doubt about that. I have given you an example here. Perhaps you were not here.

Senator CAPEHART. I think I read that, about the fellow who had an \$80,000 order?

Mr. SAWYER. Yes.

Senator CAPEHART. I believe we have had testimony and cases where RFC has turned down loans on the same basis.

Mr. SAWYER. I am not criticizing the banks for not giving the man his loan. I am just citing that as the example of a man who could not get the loan and this would probably enable him to get it because it would distribute the risk.

Senator CAPEHART. Could we have the name and address of that man?

The CHAIRMAN. He is going to testify.

Mr. SAWYER. You certainly could.

The CHAIRMAN. He will be here to testify: is that not right?

Mr. PARSONS. Yes, sir.

Senator CAPEHART. In other words, we are going to take one isolated case out of tens and tens of thousands and prove our point; are we not?

Senator ROBERTSON. Before we do that, may I say to the Senator that I would like to put another isolated case in the record.

The CHAIRMAN. There will be plenty of them.

Senator ROBERTSON. I made a speech about a month ago to a group of bankers in Roanoke in which I said, among other things, I thought tax relief to small business would be of more help to them than a new program of easy money. Well, that statement appeared in the papers on Sunday and a man in Norfolk, a furniture merchant, promptly took me to task saying how he had struggled, how he had mortgaged his home, how he had done without this, that, and the other to build up the furniture business and now, to compete with the larger firms, it was necessary for him to move into a new building on a better street, and that the local banks just would not give him any help, when he felt he was entitled to it. He thought I was very unsympathetic to his program.

I wrote him and said that if he had the assets he spoke about and if he had a business record of meeting his obligations throughout the years and if he had adequate experience in the furniture business—of course, you know you can lose your shirt in the furniture business if you put out too much on credit—I was surprised the banks would not make him a loan, but that if he would file application with the mortgage corporation in Richmond of RFC and write me I would certainly see that they went very fully into the matter.

I did not hear from him.

So, I wrote to a banker friend in Norfolk and explained the case to him and said, "Why is it that the banks have not taken care of this

man?" He wrote me back, "They have." I never heard any more about it.

Then, when Mr. Thomas Bushell, president of the Bank of Virginia, the Morris Plan Bank, saw a copy of my speech he sent me some full-page ads that his bank had carried in the Virginia papers urging all small-business men of creditworthy risk to apply to them for a loan and they would be only too glad to take care of them.

The CHAIRMAN. That is certainly one thing I want to compliment the Senator on, and the Morris Plan Bank, too; that if it had not been for the Morris Plan Bank and the way they started it a lot of these other banks would not have done it, either. The Morris Plan Bank set up that program and yet the other day here they wanted to take away the insurance for part of the Morris Plan Bank.

Senator CAPEHART. Mr. Chairman, I would like to ask a few questions.

The CHAIRMAN. If you do not mind, wait until Senator Sparkman gets through. He was here first.

Senator SPARKMAN. That is all right; you go ahead.

Senator CAPEHART. Mr. Secretary, would you be in favor of an amendment to this bill to exempt the first \$50,000 of earnings of business from any Federal taxation?

Mr. SAWYER. I do not know whether this would be the proper place to put in such a provision, but I have gone on record a number of times and would be glad to go on record again as saying that I think a primary remedy for the troubles of small business would be tax relief. I said so in my report to the President. I received from businessmen all over the country during my travels last year convincing proof, to me, that that is a very important factor, as the Senator from Virginia said a while ago.

Senator CAPEHART. I shall offer an amendment to the bill to accomplish that.

Mr. SAWYER. May I add this, however, Senator: That this, like every other problem, involves other problems. We have the problem of revenue. Now, what the effect would be on a complete exemption of earnings up to \$50,000 of revenue, I don't know. That is a problem for the Treasury Department.

Senator CAPEHART. The reason I shall do it is this: This bill proposes to help the little-business man that gets into trouble and is unable, let us say, to help himself; or the fellow who mismanages his business.

Mr. SAWYER. As I understand it, it is not designed, to help the fellow who mismanages his business. He should suffer the penalties of his mismanagement. I do not think any law can remedy that.

Senator CAPEHART. What I want to do is to help the thousands and thousands of successful businessmen to keep them out of trouble.

Mr. SAWYER. That is a very laudable objective.

Senator CAPEHART. Would you approve an amendment to this bill which I shall offer permitting the amortization of all facilities, both new and used or acquired—that is, either new, used, or acquired over a 5-year period? In other words, it would permit an amortization for tax purposes over a 5-year period, rather than under existing law, which, in most instances, runs anywhere from 10 to 15 years?

Mr. SAWYER. I have said on a number of occasions that I thought that an amortization or depreciation provision which would stimulate the purchase of new equipment was highly desirable.

Senator CAPEHART. I shall offer that amendment, too.

Thirdly, would you approve an amendment to this bill which I likewise shall offer, compelling the Government to buy—I have not yet figured out what percentage—but compelling the Government to buy—let us use at the moment 50 percent; I do not know whether that is the right figure or not—at least 50 percent of all merchandise the Government purchases from small business in America?

Mr. SAWYER. No.

Senator CAPEHART. Just pass a law compelling them to do it?

Mr. SAWYER. No; I would not.

Senator CAPEHART. You would not?

Mr. SAWYER. I do not think the Government should be restricted on any percentage basis. I can see situations where that would be highly undesirable.

Senator CAPEHART. Do you not think we might well write an amendment or bill which would be flexible enough to protect the Government and at the same time protect the small-business men of America?

Mr. SAWYER. If such a bill could be drawn I would say the objective is desirable. Of course, I have taken some action in connection with Government procurement, with which you may be familiar. For about a year and a half now we have been working on that. About 3 months ago I secured a written agreement with the Military Establishment and a written agreement with the General Services Administration under which we do two things that were never done before. We give a daily advertising of Government procurement all over the United States and we have also secured a much greater lag between the time when they get the notice that the Government intends to buy and the time when the bids have to be in, so that the little fellow, as well as the big fellow, can get his bid in.

As it was before, as you know, in the first place the little man did not know the bids were being taken.

The CHAIRMAN. Mr. Secretary—if the Senator will pardon me—I wish you would put in the record those orders that you have given out, and the various explanations that we had down here with your representative with respect to the use of your offices for small business. I think that was a wonderful thing that our staff, working with you, did and I would like the record to show what you did in that connection.

Mr. SAWYER. We will be glad to do that.

(The following was later supplied for the record:)

**PROGRESS REPORT ON THE COOPERATIVE GOVERNMENT PROCUREMENT INFORMATIONAL PROGRAM OF THE DEPARTMENT OF COMMERCE**

For some time the Department of Commerce as well as the Senate Banking and Currency Committee through its Small Business Subcommittee has recognized the importance to small business of the buying programs of the Federal Government and have jointly endeavored to improve the opportunities for smaller-business men to bid on the Government's requirements.

An early effort which has been subject to continuing improvement resulted in the publication by the Department of a Government Procurement Manual, which lists the items which the Government purchases, the agencies purchasing each class of items, and the location of appropriate purchasing offices. This informational document has been very helpful both in acquainting small business of the agency bidding lists on which they wish to be included and also in suggesting items which the Government purchases and which he could quite readily manufacture or supply.

One of the very serious deterrents of the small-business man's participation in the Government purchasing programs has been the lack of current information as to exactly what purchases were in prospect in sufficient time to be able to make intelligent bid offers. This problem was discussed in great detail with representatives of the major procuring agencies by staff members from my Department and from the Banking and Currency Committee. As a result of these discussions and the very active and cooperative backing of the Small Business Subcommittee of the Senate Banking and Currency Committee, the Department of Commerce entered into formal agreement on March 15, 1950, with the Department of Defense and the General Services Administration, for the prompt and effective distribution, through the Department of Commerce field offices, of daily information on proposed purchases by those activities. Under these agreements, each of the major purchasing offices of the Department of Defense and the General Services Administration submitted daily listings of invitations to bid to the 14 regional offices of the Department of Commerce and Small Business Division in Washington, D. C. These daily listings were immediately consolidated in each of the Commerce regional offices into a single consolidated synopsis which was distributed to the many business contact points of the Department. At the inception of the program there were only approximately 150 such business contact points. But today there are over 1,100 such locations in the country from which businessmen can secure copies of the daily synopsis of bid invitations.

As a result of experience gained, the publication of the daily synopsis has now been consolidated in one Department of Commerce office in Chicago, Ill. All of the individual synopses now go to that single point and all reproduction and distribution is accomplished by that office.

One of the most important results of this program has been the general broadening of the bidding time element. The purchasing agencies have, generally speaking, increased the time period between the date of the invitation issuance and the bid opening.

On or about July 1 the daily listings being furnished to the Commerce Department by the several purchasing offices throughout the country for consolidation and reproduction will be sent to that office via teletype. This will further improve the time element by 24 to 48 hours.

An extremely important phase of Government procurement to the small-business man is the opportunity it can offer to subcontracting activities. Many prime contracts by their very nature must necessarily be handled by large concerns. For example, it is expected that a contract for Boeing airplanes could only be let to the Boeing Co. However, that company has great needs for subcontractors to supply component parts for the end product. In the past not-too-much information concerning the award of prime contracts has been made readily available to the businessman. On or about July 15 as a part of the new cooperative arrangement between the Department of Commerce and the several procuring agencies, information will be made available to the business community on all contracts awarded on the basis of bid and negotiation by the Department of Defense in amounts of \$25,000 or more. Once each week each of the major procuring offices of the Department of Defense will report to the Department of Commerce awards made during the week. This award data will be consolidated, reproduced on a different colored paper and disseminated as part of the synopses information publication which goes to over 1,100 outlets. In this fashion smaller manufacturers and suppliers will be able to know who received large prime contracts and for what items. With this information available, it is believed that they will be able to develop many new subcontracting opportunities with these major prime contractors.

Gradually additional Federal purchasing agencies are being brought into this cooperative informational system and, it is believed, that within a reasonable period of time complete over-all information on Government purchases will be available to business on this daily basis through the efforts of the Department of Commerce and the cooperative procurement agencies.

**Senator CAPEHART.** What I am endeavoring to do here is to create an atmosphere under which small business in America can be successful and not be forced to go to the banks or to the Government to get money. In other words, if we create an atmosphere here in which they can grow and become prosperous, then we do not need to worry about loaning them money, do we?



Mr. SAWYER. I completely agree with your thesis that it is highly desirable to create an atmosphere and to provide conditions under which the small-business man can grow and become prosperous, but I do not believe you can overlook the need for the small- or the large-business man, for that matter, to have adequate capital. I think one of the great problems today, as the Senator from Virginia suggested earlier, and you have, too, is to provide some method, perhaps by a tax change, by which the little fellow can accumulate a reserve which will enable him to go through bad times and improve his position.

Senator CAPEHART. Where he could plow back his profits into his business and develop his business himself?

Mr. SAWYER. Exactly.

Senator CAPEHART. Whereas, under existing conditions he cannot do it. That is why I shall introduce an amendment to give him an exemption up to—I think it will be \$50,000— and a 5-year amortization plan which will enable him to plow his profits back into his business. And also an amendment here to compel the Government, by law, to give a percentage of their business to the small-business men of America, which they are not doing at the moment.

Mr. SAWYER. I may say to you—I do not know what the figures are, but we are getting much larger percentages now of small-business contribution to the procurement program than we ever did before.

Senator CAPEHART. What we want to do, I am certain, is to create a condition and an atmosphere in America where the small-business man can be successful.

Mr. SAWYER. That is right.

Senator CAPEHART. An atmosphere in which he can be successful with his own ability and in his own business, and not simply set a bill up here that primarily—and notwithstanding what you say, this bill we have before us will penalize the successful and benefit the unsuccessful.

Mr. SAWYER. I would not support it if I thought that was its purpose or its effect.

Senator CAPEHART. Mr. Secretary, you know that is the way it will work out.

Mr. SAWYER. No; I do not.

Senator CAPEHART. You know that the banks will take all of the good loans and you will get the bad ones.

Mr. SAWYER. The banks make the loans; we do not make the loans.

Senator CAPEHART. You are a businessman and so am I. I am not saying it should not be done at the moment, you understand. But what is the use of us kidding ourselves. That is exactly the way it will work out. That is exactly the way RFC is operating at the moment. RFC only gets loans and the law says they can only take loans where they cannot get the money from any other source. If they are successful they can get the money from other sources, and if their proposition is sound. In 99.9 cases out of 100 they can get it from other sources.

I am not saying that this bill should pass, but I am saying that while we are considering this bill let us add some features to it that will create an atmosphere to promote the general prosperity of all small-business men in America, help all of them, and not necessarily help the ones that are unsuccessful.

I realize that many a businessman gets into trouble because of conditions beyond his control, and we have many instances of that. Of course, those fellows are deserving of help, either from a bank or from us, or from some other sources.

I shall offer those three amendments, and I wish you would be thinking about them, if you will, please.

Mr. SAWYER. I have thought a great deal about the factors that enter into those suggestions, and, as I say, I agree with the one about accelerated depreciation; I agree with the need for some tax relief, but I would like to clear up one point, if there is any doubt in your mind about it.

I would not support this bill for a minute if I thought it was only to stimulate ineffective management to encourage the poor businessman at the expense of the good businessman.

Senator CAPEHART. Mr. Secretary, it just will not work out like that, it has to work out that way.

Mr. SAWYER. Of course, I am not a prophet and I cannot guarantee what will happen, but my feeling is—

Senator CAPEHART. I think the bill itself says that the money will only be loaned and you will only guarantee the bank where they are unable to secure it from any other source.

Mr. SAWYER. You are talking about the RFC?

Senator CAPEHART. No; I think the bill itself says that.

Mr. SAWYER. I think not. If there is such a provision I will take another look at it.

Senator CAPEHART. Then if it does not say that will not every \$25,000 loan made by every bank in the land come under the Government's guaranty? If what you say is true, then what we are going to do is to guarantee every loan in America for \$25,000.

Mr. SAWYER. No; what will probably happen is what happened in connection with the housing-improvement loans, as I understand it. The drafters of this bill have indicated a top premium of one and a half percent. The experience of the banks with these housing-improvement loans, I am told, has been such that little by little the banks have undertaken to make those loans direct without the insurance feature, and I think that is probably what will happen here. In other words, they may add a half percent or a quarter percent and keep it themselves and forego the protection which the insurance fund gives.

Of course, as I said in my formal statement here, that is all right. If a man gets his loan, it doesn't make any difference how he gets it.

Senator CAPEHART. What you are saying is that any bank which wishes to pay this premium can have all of the \$25,000 loans guaranteed?

Mr. SAWYER. Oh, no. In the first place, the loans will be made under certain formulas or rules and regulations which will be laid down.

Senator CAPEHART. Excuse me, but those formulas, Mr. Secretary, at least one of them will have to be that they cannot get the loan from any other source?

Mr. SAWYER. Oh, no, no; quite the contrary. We are now talking about loans made from the private banks. The only section that I know of which says anything of the sort you are referring to is the

section dealing with the RFC, and that is in the law at the present moment.

Senator CAPEHART. Under section 1 you are going to guarantee the banks 90 percent on a \$25,000 loan.

Mr. SAWYER. There is to be an insurance fund set up which will be met by contributions of the one and a half percent, not in excess of one and a half percent, which will be charged to the borrower when he receives the loan. The banks will carry a 10 percent risk on that loan.

Senator CAPEHART. The bank will?

Mr. SAWYER. The bank will.

Senator CAPEHART. My point is, if you do not put a regulation in there that you will only insure that loan if they are unable to get the money from any other source, then every loan that every bank makes will come under the Government's guaranty.

Mr. SAWYER. There will not be any such provision in the regulations. The point is that the bank itself makes the loan, as I stated in my earlier statement. We do not have anything to do with the loan.

Senator CAPEHART. I understand. Let me state this and see if I understand it.

As I understand it, the bank makes a loan, you guarantee 90 percent of the loan; the bank charges the borrower one and a half percent as a premium.

Mr. SAWYER. One and a half percent premium goes into the insurance fund.

Senator CAPEHART. Which goes into a reserve fund or a trust fund?

Mr. SAWYER. To meet the obligations that are not met, I mean, to take care of the bad loans.

Senator CAPEHART. It goes into a reserve fund, a contingency fund, a bad reserve fund?

Mr. SAWYER. Right.

Senator CAPEHART. My point is, will not all such loans in the United States eventually be guaranteed by the Government?

Mr. SAWYER. I do not think so, because I see no reason why a bank which makes a loan that is very certain to be repaid would utilize that 1½ percent or forego that 1½ percent, when it could either get it itself or give the borrower the benefit of it. I do not think that will affect it.

Senator CAPEHART. Then will you not encourage the banks themselves to charge the borrower 1½ percent in order to create his own reserve?

Mr. SAWYER. As far as the borrower is concerned, it makes no difference to him, I take it, who he pays 1½ percent to, if he gets the money. And if he actually gets the money it doesn't make any difference to the Government, either, or anybody else, as far as I can see.

Senator CAPEHART. I think you will be forced to write into this bill, or into your regulations, that you will only guarantee this loan providing the borrower is unable to secure the money from any other source.

Mr. SAWYER. Oh, no; quite the contrary. I am sure there will not be any such regulation as that.

Senator CAPEHART. Then do you not agree with me that all \$25,000 loans will eventually be guaranteed, or 90 percent of all of them?

Mr. SAWYER. No, sir. I agree with you on some things, but I do not agree with you on that.

Senator CAPEHART. At least you give honest answers.

Mr. SAWYER. May I say this, Senator, in order for you to underline my feeling about what really is involved in successful business? When I first became Secretary of Commerce I went over the list of publications the Department was then sending out to businessmen, how to run a grocery store, and so forth, I said, "Is there any publication that states that the way to succeed in business is for a young man to get up at six in the morning and work until ten at night until he is about 40 years old?" They said that there was no such publication. I said I thought perhaps it would not be a bad idea to circulate that, because that is my observation of what really brings success in business.

I want to say again that under no circumstances would I support a program, either administrative or legislative, which I thought would encourage mismanagement and penalize the hard-working effective management.

Senator CAPEHART. You may well be right, but I have my fingers crossed at the moment. I think we might well look into that particular phase.

What we are proposing to do here is to set up a system where eventually the Government will be guaranteeing all loans, or 90 percent of all loans up to \$25,000.

Again I want to repeat, that I cannot see, if you do not write into the regulations that the Government will not guarantee a loan unless the man is able to secure it from any other source, but what I have just said would actually happen.

Mr. SAWYER. Any regulations I might write would bear on the side of making it a good loan. The same thing would apply to the RFC, if I have anything to do with it.

Senator CAPEHART. If you say you will not guarantee it except if they cannot get it from any other place, then you will be getting the bad loans in the United States and the banks will be getting the good loans.

Mr. SAWYER. That is not in the bill and will not be in the regulations.

Senator CAPEHART. All right. We have a lot of time to study it.

The CHAIRMAN. Senator Sparkman.

Senator SPARKMAN. Mr. Secretary, what you are seeking to do is to stimulate this lending business among the banks, is it not?

Mr. SAWYER. Yes.

Senator SPARKMAN. Just as was done, as you pointed out in your statement, under title I of the Housing Act?

Mr. SAWYER. That is right.

Senator SPARKMAN. It is not a case of saying to the banks, "Make \$25,000 loans and we will insure all of them." You set down certain regulations and plans under which the bank can take those loans with the knowledge that they can be protected under this plan.

Mr. SAWYER. Up to 90 percent. I might say, Senator, that in my judgment that 10 percent will not be ignored by good banks. In other words, they are not going to go into any insurance fund because they can make bad loans, if they are going to lose even 10 percent of that loan, because that is a very important item.

My feeling is that there will be only a slight relaxation of banking practice, but in the long run it will benefit what you might call marginal cases among small-business men.

The experience, as I said before, among the banks which have within the last year given additional attention to these loans, has indicated that there is there a field which has not been completely utilized.

Senator SPARKMAN. Do you know offhand what the comparison may be between this proposal and the one that the Federal Reserve Board presented to us a year or two ago?

Mr. SAWYER. No.

Senator SPARKMAN. It was very similar, was it not?

Mr. SAWYER. Mr. McCabe is going to testify before you in a few days and you can ask him that question.

Senator SPARKMAN. I think it is the same or similar, is it not?

Mr. SAWYER. I think it is the same, but I would prefer to have you ask the question of him.

Senator SPARKMAN. Now, referring back to some of the questions that Senator Robertson asked you during all of that discussion about inflation, I did not hear anything mentioned about the tremendous amount of our productive capacity over the last 10 years or more that has gone into war purposes. That has quite an effect on inflation, does it not?

Mr. SAWYER. I hope that I made clear in my answers to the Senator there were a number of factors that contributed to inflation.

Senator SPARKMAN. Yes, you did, but I did not hear you mention that. That perhaps has been the biggest single factor, has it not?

Mr. SAWYER. It certainly has been one of the big factors, yes.

Senator SPARKMAN. It is still true, is it not?

Mr. SAWYER. Yes.

Senator SPARKMAN. Whereas, as a matter of fact, the biggest single item we are paying out in our national budget is for war purposes, national defense?

Mr. SAWYER. War purposes past and prospective.

Senator SPARKMAN. Coupled to that is our tremendous amount of foreign commitments tied in with that.

Mr. SAWYER. Tied in with the war, yes.

Senator SPARKMAN. And, of course, the big national debt that we have also has some bearing on the amount of money in circulation and the inflationary aspects, does it not?

Mr. SAWYER. I think so.

Senator SPARKMAN. In fact, is not the best way to overcome inflation the stepping up of production, the stepping up of productive capacity?

Mr. SAWYER. That is the point I tried to make in answer to the question a while ago. Small business can adjust and expand quickly, but it needs access to capital to do it.

Senator SPARKMAN. And is that not really the real purpose of this legislation, to stimulate production among the small business concerns of this country?

Mr. SAWYER. Yes.

Senator SPARKMAN. Which constitute, as you point out in your statement, 90 percent of our going businesses.

Mr. SAWYER. I think that is one of the purposes, and another purpose which I think is highly desirable is to try to help the small-

business man, as contrasted with the big-business man, at a time when the tendency to concentration and growth is fairly marked. I mean, I think financially the small fellow is at a greater handicap than the mere proportion between his size and that of the larger concern.

So I think not only are we endeavoring in legislation similiar to this—no matter what exact piece you may put through—to stimulate the national production, as you say, by increased services and values to counteract an inflationary trend, but we are also undertaking to make a better adjustment between large and small businesses.

Senator SPARKMAN. And that is a continuing problem, is it not?

Mr. SAWYER. Yes; it certainly is.

Senator SPARKMAN. When Senator Capehart was asking you about the probability of the Government being left with the bad loans on its hands, or rather the encouragement of bad management, the thought occurred to me that in the FDIC, which is somewhat similar to this, there has not been any encouragement of bad banking, has there?

Mr. SAWYER. No. So far as I know, I think not. The bankers of the country have pretty well seen to the fact that the loans they make are good loans, not bad ones.

I do not see any incentive to a banker to make a bad loan under this legislation, or the other that has been mentioned.

Senator CAPEHART. If I may interrupt: Under FDIC, all banks came in and all banks are participating, and all banks are paying the premium. That is just my point. You will eventually end up here where you might well have the same situation as you have in FDIC, where every bank in the United States is participating, and where every \$25,000 loan, 90 percent of it is guaranteed by the Government with the borrower putting up the 1.5 percent.

Senator SPARKMAN. Of course, all the banks did not come into FDIC. They are all in in 15 States, I understand. State banks did not have to come in.

Mr. SAWYER. They did not all come in; that is my understanding.

Senator SPARKMAN. In the same way, when Congress passed title I of the housing bill, the banks very slowly came into that until they found out the nature of the business, and then it became one of the most attractive programs in the whole housing field.

Mr. SAWYER. In the whole lending field.

Senator SPARKMAN. Yes, and it has meant much to the economy of this Nation. As I understand it, this legislation follows very largely—that is, title I of this legislation follows very largely title I of the Housing Act.

Mr. SAWYER. That is correct.

Senator CAPEHART. May I say this: Unless human nature has changed in 1950—and it may have changed—I feel confident that all of your banks are going to give you the \$25,000 loans and charge the borrower 1.5 percent, then turn it over to you as a reserve fund under this act.

Mr. SAWYER. I do not think human nature has changed in 1950, or probably will change for many years to come. I think the banker's nature will also not change. I think he will still want to get good loans and will get them. I do not fear this thing as you do.

As far as what will eventually happen, I cannot prophesy, but so far as this bill itself is concerned, which is the one I am discussing, it does not in any way provide that the Government guarantee even

90 percent of these loans. There is an insurance fund put up by the borrower. The Government guarantees nothing and puts up nothing except an initial amount.

Senator CAPEHART. I know how these things all start in Congress. They start out small and then grow up. But I am saying that I can see where, 5 years from now or maybe 10 or maybe 3 years from now, if this bill becomes a law, all loans in the United States up to \$25,000, 90 percent of them, will be guaranteed by the Government and the borrowers will be paying 1.5 percent more than they are at the present time for their loans.

I am just as confident as I am sitting here that that is the way it will work out. Maybe that is anticipated as a part of the bill, and maybe that is the way it should be, and maybe that is the way you want it.

Mr. SAWYER. That is not anticipated, it is not the way it should be, and it is not the way I want it.

Senator CAPEHART. Mr. Secretary, it has to work out like that, does it not?

Mr. SAWYER. I do not think so, but I suppose you and I could discuss that for a long while and not come to a conclusion.

Senator CAPEHART. I am a banker, let us say, in Indianapolis. This law is in effect. You come in to me today and say: "I want to borrow \$25,000." You are a good credit risk, and I say: "Sure, I will loan you \$25,000." I put that under my contract with the Government to guarantee it. I say to you as the borrower: "Now, you have to put up 1.5 percent in addition to your interest."

Isn't that exactly what is going to happen?

Mr. SAWYER. No. I am a banker in Indianapolis right across the street. You say to this man: "I am going to charge you 5.5 percent," and he comes across to me and I let him have the money without the insurance, for 4.5, and I am the one who makes the loan; am I not?

Senator SPARKMAN. That is competition at work.

Senator CAPEHART. Well, all right.

Senator SPARKMAN. Of course, Mr. Secretary, these predictions from my good friend, Senator Capehart, sound very much like some of those predictions that have been made against other programs, FDIC, for instance. All of the banks, so many of the banks or so many people predicted exactly that same kind of a program on FDIC; that is, that it would be an incentive for poor banking, it would brace up the weak banks at the expense of the good banks. The same thing was true with title I, Housing, with all of the housing, with the FHA program.

The CHAIRMAN. Every bit of the housing legislation.

Senator SPARKMAN. Every bit of it. You certainly do not intend to administer the program in such a way as to let those predictions come true, do you?

Mr. SAWYER. If I have anything to do with administering this or any other program, it will be administered on the assumption that a hard working, good manager of a business will be encouraged, and a poor manager and a lazy businessman will be discouraged.

Senator SPARKMAN. Just one other question, and I am through: Senator Robertson suggested he thought it would be better to wait for Reorganization Plan 24 to go into operation. Now, if plan 24, under which you said your Department would be authorized to make

small-business loans, went into operation, assuming that to be true, that would be direct loans from the Government; would it not?

Mr. SAWYER. Yes. That, I think, is the feature Senator Capehart refers to.

The CHAIRMAN. But that is not in this bill.

Mr. SAWYER. That is not in this bill.

The CHAIRMAN. That is right.

Mr. SAWYER. I may say also—and I certainly am not looking for the RFC; I have enough to do today—but if I get it, there will be no loans made there, if I have anything to do with it, that are not made on the assumption that they are going to encourage an active, progressive, and hard-working businessman.

Senator SPARKMAN. But, the point I am trying to get at is: Senator Robertson suggested you could take care of small-business loans if the RFC is transferred to your Department. But that would be contemplating only the use of Government money. In other words, it would be direct loans from the Government; would it not? Whereas, the plan that you propose here would let the private banks make those loans themselves, rather than the Government?

Mr. SAWYER. Nobody but the private banks make loans under this bill.

Senator SPARKMAN. That is right. In other words, this program contemplates getting away from the direct lending by the Government, does it not?

Mr. SAWYER. There is a provision in the bill that has to do with a certain change in the RFC, regardless of whether it is transferred to my Department, or not.

Senator SPARKMAN. Yes, I understand that.

Mr. SAWYER. I wanted to make that exception. But, so far as title I, the part we have been talking about and which the Senator has mentioned, concerning insured loans up to \$25,000, those are all loans by private banks.

Senator SPARKMAN. And they do not use Government funds at all?

Mr. SAWYER. No, not at all. There is an initial \$10,000,000 fund.

Senator SPARKMAN. To start the insurance fund?

Mr. SAWYER. To start the insurance fund.

Senator SPARKMAN. And that is retired as the 1.5 percent accumulate?

Mr. SAWYER. The insurance fund would be built up to the point where there would be a safe reserve and then, of course, the advance would be paid back to the Treasury.

Senator SPARKMAN. That is all.

The CHAIRMAN. You would pay that back in the same way the FDIC did?

Mr. SAWYER. That is correct.

Senator CAPEHART. Mr. Secretary, do you not think if this bill becomes law—I have not said whether I think it should or should not; I think we should anticipate what may eventually happen—do you not think if this bill under title I becomes law, under which borrowers put 1.5 percent into a reserve fund and, as the bill is written today, where the Government guarantees 90 percent of all \$25,000 loans, that it is only a matter of time until the Congress will be increasing the \$25,000 limit to \$50,000, then to \$100,000, and only a matter of time until you well might have another FDIC in which



the borrowers of America are charged 1.5 percent on all loans which goes into this contingent fund, and that the Federal Government would be guaranteeing all business loans, say even up to \$500,000 or \$1,000,000? Will that not be the end result of what we are talking about here today?

I am not going to argue today whether it is a good thing or a bad thing, but I am just anticipating what is going to happen if this bill becomes a law. I would like to meet you 10 years from now and compare notes.

Mr. SAWYER. I would like to meet you 10 years from now for any purpose. [Laughter.]

But, in my judgment, the thing you fear will not happen. Honestly, I think we are more likely to have less use of these provisions than some of the sponsors suggest, rather than more.

Senator CAPEHART. Why do you limit this to \$25,000 which today, with inflation, is a small amount of money? Why, if a man needs \$30,000, do you limit it to \$25,000?

Mr. SAWYER. The theory was that we were really giving attention to the little fellow who normally, according to the figures which have been given me, probably would not borrow over 3 or 4 thousand. That is what we actually contemplate will happen.

Senator CAPEHART. Of course, under this bill you are practically eliminating all manufacturing and all wholesalers, are you not?

Mr. SAWYER. No. It is the fellow who needs 4 or 5 thousand dollars in a small town and cannot get it today. We think he will be helped by this bill.

As I say, I think we may overestimate the use that will be made of it and, furthermore, as I think I said before you came in, what will happen is that the banks themselves will make loans which they would not otherwise make and save that 1.5 percent or split it with their customer.

Nevertheless, we are giving him a chance. We are opening up the field to the little fellow. As far as the \$25,000 is concerned, that may be high. I think it is much higher than the average loan will be, far higher than the average loan will be.

Senator CAPEHART. Why do you limit it to \$25,000? Why not \$30,000?

Mr. SAWYER. Because we are aiming to take care of the small-business man; that is the reason.

Senator CAPEHART. The man who needs \$50,000 may need it as bad as the fellow who needs \$10,000.

Mr. SAWYER. He certainly may, but he is not as small as the fellow who needs a smaller amount. Title II of this bill, S. 3625, is designed to assist the businessman who needs an amount greater than \$25,000.

Senator CAPEHART. Let me ask you this question: Do you think it would do small business in America more good today to pass this bill, or to give a \$50,000 exemption on Federal income tax?

Mr. SAWYER. I think tax relief is probably, in itself, the greatest single thing that can be done, but I do not think it is the only thing that should be done. Furthermore, I recognize the realities of the situation from the standpoint of revenue. I mean, we have to get money to run the Government.

As I said a while ago in answer to your question, I do not know what amount of revenue the Government would lose by a complete exemp-

tion of \$50,000. It would be a very large sum, I imagine, several billion dollars, but I do not know.

Senator CAPEHART. But you do agree it would be a very fine thing for the small-business men of America?

Mr SAWYER. I do; I have said so repeatedly. I think tax relief is highly desirable and probably, in the long run, the most constructive thing that could be done for them.

Senator CAPEHART. In other words, if you would give the small-business man \$50,000 exemption, and you would give him a 5-year amortization plan that we are talking about, then there might not be any necessity for the Government loaning any money or guaranteeing any money whatsoever?

Mr. SAWYER. I would not comment on the specific amount, and I certainly would not go as far as to say that no other relief or no further attention to the small-business man would be needed. The Government is not lending this money. I have made that point sufficiently, I think.

Senator CAPEHART. Yes, I understand that. They are putting up \$10,000,000 to start with. I know Congress, and the next step will be \$25,000,000, and the next step will be to increase the \$25,000 limit to \$50,000, and the next step will be to \$75,000, and the next step will be to \$100,000.

Mr. SAWYER. That is a very interesting prospect.

Senator CAPEHART. You see, a Congressman or a Senator has to have something to run on. When you get the \$25,000 limit in, he has to say to the small-business men: "Now, that is just not enough. It has got to be \$50,000. I am going back to Congress now and make it \$50,000." That is the history of all these schemes. I am not arguing the merits or demerits of them at the moment. I am just giving you the history.

Mr. SAWYER. I understand.

Senator CAPEHART. My point is that if you give them a \$50,000 tax exemption and a 5-year amortization plan, they would then be able to go to any bank and borrow the money, because no bank, not even yourself—and I think that is written into the bill here—will loan any money under this plan or guarantee it unless there is a reasonable expectation of repayment. I think you would agree with that.

Mr. SAWYER. No loan that I have anything to do with, either directly or indirectly, will be made on any other basis. I wish to make it clear that under the insured loan plan of title I, the Government would not be lending the money. Private banks would make the loans.

Senator CAPEHART. Now, I agree with you that that is 100 percent right. Then, if they have an exemption of \$50,000 and have a 5-year amortization plan, they will save enough on their taxes to repay their own loan.

Mr. SAWYER. It is a very attractive prospect. The only trouble with it is that I think it is an oversimplification.

The CHAIRMAN. Any more questions? If not, I just want to say one thing for the record, gentlemen. I discussed this with the Secretary of Commerce as well as other administration leaders. We had a conference which Senator Sparkman and I attended. At different times the tax matters have been brought up that Senator Capehart speaks about. I am in entire accord, and so stated before he came here, that I think the tax matter would be of great relief.

I want to make it clear again that the Banking and Currency Committee has nothing in the world to do with tax relief or income taxes. That is a matter for Senator George and the Finance Committee.

They are going to bring a bill over here from the House that is going to give certain relief to small business. They are going to raise taxes, probably, on large business, and I imagine a lot of amendments will be put on that bill to exempt the \$50,000 or \$75,000 or whatever the Senate is going to do, but this bill here is not a tax bill. It is not a revenue bill. We have had no hearings, such as the Ways and Means Committee had in the House for weeks, on what effect this would have, or the hearings that Senator George is going to have on what effect these reductions will have. It is stated in the paper that it will probably take him 2 weeks.

This committee's jurisdiction has nothing to do with what the Ways and Means Committee of the House had to do with, or the Senate Finance Committee.

I wanted to make that statement, because people have come to me asking me about putting amendments on this bill, and it was suggested that something be done about that, but the Banking and Currency Committee has no jurisdiction over that, clearly, and that is why no tax matters were put in this bill. I have so stated to various people who have seen me. I have talked to Senator Sparkman and I have talked to Senator Fulbright and, as a matter of fact, Senator Fulbright has a bill here, and you have, too, to relieve taxes.

Senator SPARKMAN. That is correct.

The CHAIRMAN. Which bill is before the Finance Committee, is it not?

Senator SPARKMAN. No. It is drafted, but to be offered as an amendment when the bill comes over.

The CHAIRMAN. To the finance bill?

Senator SPARKMAN. That is right.

The CHAIRMAN. But not to this bill. We do not want Senator George to believe for one moment—and with due respect to Senator Capehart here—that we are going to go into tax matters here, when he has already said in the morning paper that he is going to hold hearings for 2 weeks. The House has had hearings that have been going on for 2 weeks and have brought out a tax bill.

Senator CAPEHART. Mr. Chairman, I have just been reading the declaration of policy of this bill. It is—

to foster the development and growth of independent small-business enterprises with the objective of enabling them to make their maximum contribution to productive investment and employment and to the economic stability and growth of the Nation; to make capital and credit—

and so on and so forth.

Now, the declaration of policy in this bill is one that should cause this committee to explore every conceivable possibility of helping the small-business men to do what the declaration of policy states here, and to that end I shall offer these three amendments when the committee gets down to the point where they are considering reporting this bill out.

The CHAIRMAN. I imagine similar amendments to that effect—

Senator CAPEHART. And if I cannot amend them in this committee in the bill, I shall offer them on the floor to the bill, and if I cannot get

them there, I will offer them on any tax bill. In other words, I am going to make—

The CHAIRMAN. I understand the tax bill is coming over here.

Senator CAPEHART. I am going to make every conceivable effort to get in the three points that I enumerated a few minutes ago, and that is an exemption from taxes for the small fellow of \$50,000, this 5-year amortization plan, and that the Government must purchase X percentage of merchandise from the small-business men in America. I am going to make every effort, as long as I am in the United States Senate, to get those three things accomplished.

The CHAIRMAN. I am not differing with the thoughts of the Senator, because I have been doing everything I could to have the Government buy from small business a certain percentage, as the Secretary of Commerce knows. We have worked hard on it and we are going to continue to work. Insofar as the tax payments are concerned, I am going to try to help as much as I can when the bill comes to the floor of the Senate from the Finance Committee.

I just did not want another committee to think that I was interfering in their business.

Senator CAPEHART. As to the amortization plan, I introduced it in the Eightieth Congress, and it was introduced again in the Eighty-first Congress. That is a separate bill that has been introduced and has been before the Finance Committee now for about 3 years, and they have done nothing about it. Therefore, I am going to start now to tagging it onto legislation as it appears on the floor of the Senate and in the committees, because I am thoroughly sold on it.

The CHAIRMAN. I can only say this to the Senator: I appreciate his motives, but I did not want any other committee to think that we were holding hearings here on that. It is his duty to put the amendment in here or to put the amendment in on the floor, but I just wanted to keep the record clear.

Senator SPARKMAN. Mr. Chairman, I would just like to say that I fully agree with Senator Capehart that the greatest relief that could be given to small business is in the field that he has suggested. I do not say that I agree with him 100 percent on all of his suggestions, but I think he has made some very fine suggestions, and I certainly hope that we will work to the end that we may get the proper committee to write some of those things into law.

Senator CAPEHART. I am certain if the administration, and you gentlemen who control the Congress, would make up your minds that those three things are good things, you could find some way to get the job done.

Senator SPARKMAN. You could not do it in the Eightieth Congress. How do you expect us to?

Senator CAPEHART. I did not get the amortization plan in, I agree with you. I am certain that if you made up your minds you wanted to do it, you could do it, just like you made up your mind that you wanted to put through this bill here to guarantee up to \$25,000. I again say it is the beginning of another plan where you will eventually wind up guaranteeing all business loans in America, and they will put up 1.5 percent. They may well be able to create a sufficient fund to take care of this without any losses. We could argue that point, but I am just saying it is the beginning of a great governmental insur-

ance department here to guarantee business loans, both big and small, eventually. Maybe it is a good thing.

The CHAIRMAN. Any further questions? If not, thank you for your appearance and for your fine statement.

Mr. SAWYER. I want to thank you, Mr. Chairman, and the members of the committee for the very courteous treatment I have received. I will be glad to come back at any time.

The CHAIRMAN. Mr. Boyd is here.

Mr. Boyd, we have been a pretty long time, as you can see, with the Secretary; 2½ hours. The Senate has been in session for quite a while. Would you rather come back in the morning?

Mr. BOYD. At your pleasure, Mr. Chairman. I have only a few remarks to make. This bill is not designed specifically for mining but to aid the small manufacturing businesses, one phase of it, which would assist the mining phase.

The CHAIRMAN. Senator Capehart said he would like to hear you if you could come back in the morning.

Mr. BOYD. I would be glad to. At 10 o'clock?

The CHAIRMAN. Yes.

Our meeting will stand in recess until 10 o'clock in the morning.

(Whereupon, at 12:30 p. m., the hearing was recessed until Friday, June 23, 1950, at 10 a. m.)



## SMALL BUSINESS ACT OF 1950

FRIDAY, JUNE 23, 1950

UNITED STATES SENATE,  
COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C.*

The committee met, pursuant to recess, at 10 a. m., in room 301, Senate Office Building, Senator Burnet R. Maybank, (chairman) presiding.

Present: Senators Maybank and Capehart.

Also present: Senator Benton.

The CHAIRMAN. The committee will come to order.

Unfortunately, Senator Sparkman and several of the other Senators are tied up this morning writing up the public works bill, and will not be present.

We are happy to have you with us this morning, Dr. Boyd, and you may proceed in your own way, sir.

Mr. Boyd. Thank you, Senator.

### STATEMENT OF DR. JAMES BOYD, DIRECTOR OF THE UNITED STATES BUREAU OF MINES

Mr. BOYD. Mr. Chairman, my name is James Boyd, and I am Director of the United States Bureau of Mines of the Department of Interior.

The Department of the Interior endorses the principles and objectives of S. 3625, and it believes that such legislation is important to the survival and growth of independent small business and hence to national economic expansion.

I wish however to address myself specifically to its relationship to the minerals industry. It has been claimed that the development of new mining enterprise, especially in the Western States where the industry is largely based upon nonferrous mining operations, has been languishing since World War II. Evidence available and already presented before other committees of the Congress substantiates this claim. Because the Department of the Interior is the agency responsible to the Nation for the development and conservation of our natural resources, and since the Secretary of the Interior also has responsibilities with respect to the development of domestic mineral sources for stockpiling and other defense purposes, any legislation that may assist the mineral industry in developing new reserves is of deep interest to the Department.

There appear to be a number of reasons for the current slump in new mining ventures. Because the minerals industry is extremely diversified, both with respect to mode of mine operation and product,

it is far from easy to pin point specific reasons for a condition resulting from the influence of many complex economic factors operating in an equally complex industry.

One provision of this bill is of considerable interest to those engaged in minerals research and especially to mining companies initiating costly programs directed toward the utilization of low grade or submarginal ores. Here I refer specifically to title 3, section 303, subparagraph (b) :

That any loan to a business enterprise made for a purpose essential to national defense as determined by the President through such officials as he may designate may be made with such maturity as the Corporation may determine.

A case that comes immediately to mind is that of taconite research. Taconites are very low-grade iron materials that abound in the Lake Superior iron ore district.

The CHAIRMAN. There was a firm that came in here and we held extended hearings 2 years ago on an RFC loan to them. There was quite a bit of testimony on that. They brought in maps showing their properties in the Lake Superior region, if I am not mistaken.

Mr. BOYD. That is right, sir.

The CHAIRMAN. The head of one of the departments at the University of Minnesota, I think, testified, too.

Mr. BOYD. I think it was Dr. Ryerson, if I remember correctly.

The CHAIRMAN. That is correct.

Let me ask you another question particularly with reference to these mining ventures in connection with stockpiling. I presume that you testified before the Public Lands Committee and other committees of Congress?

Mr. BOYD. That is correct, sir.

The CHAIRMAN. Of course we have been concerned in the Appropriations Committee about the large sums of money being spent for stockpiling—which is absolutely essential. Would the development of new mines reduce the stockpile requirements? Did you give any testimony in that regard?

Mr. BOYD. That is correct, sir. If we could develop reserves and resources in this country, and develop mines, it automatically reduces the stockpile objective. The ore deposits that we know of today in this country essentially constitute a stockpile.

The CHAIRMAN. Do you think you could do it at the cost at which we are buying these ores? You know what we are paying for these strategic materials. How would it compare if we developed these industries, in your judgment, as against what we are paying to import these strategic materials now, percentagewise?

Mr. BOYD. Under this bill, deposits which would be brought in would have to compete in the markets whether or not for the stockpile. Those which would be more expensive or too low grade would not meet that requirement. However, by exploration and development of new resources, it might be possible to find reserves which could be mined to compete with foreign ores today. However, if submarginal or very low grade deposits were brought into production for stockpile purposes the products would cost more.

The CHAIRMAN. In other words, these ores you are talking about would be more costly than what we are importing now?

Mr. BOYD. That is right.



The CHAIRMAN. But you believe that maybe through exploration we might be able to find some other ores that might meet the competition of these foreign ores that we are spending so much money on for stockpiling purposes?

Mr. BOYD. That is true in many mineral commodities. It is a little different in iron ore, because our high-grade reserves are being depleted and the industry is going overseas for iron ore now.

The CHAIRMAN. I understand that.

Mr. BOYD. We are not even sure that that will be sufficient to maintain production at the going rate.

The CHAIRMAN. What about Canada?

Mr. BOYD. Canada has some too, but those deposits, large as they are, can supply only a fraction of our national requirements.

The CHAIRMAN. What about Alaska?

Mr. BOYD. I know of no great iron ore deposits in Alaska. There are small ones, but no large ones have been discovered to date.

The CHAIRMAN. I gathered from the testimony before the Appropriations Committee that you are exploring for iron ore deposits in Alaska.

Mr. BOYD. That is correct, sir.

The CHAIRMAN. Thank you.

Mr. BOYD. Iron ore and steel companies have been engaged in taconite research for about 10 years, but no commercial operations have as yet been achieved. It has been estimated that from \$15 to \$20 per ton-year of capacity will be required to bring taconite production into being. Remember that our iron-ore requirements are estimated in millions of tons; the Bureau of Mines estimates that at 85 percent steel capacity, we must produce 96,000,000 tons of iron ore this year if we are to satisfy domestic needs of the steel industry. By 1957 it is estimated that we will require in excess of 100,000,000 tons assuming the same steel capacity figure. If we assume 100 percent steel capacity, which is now the operating rate of the industry, the industry would need 112.9 million tons of iron ore this year and 118.1 by 1957. These are astronomical figures and in view of the fact that our reserves of high grade iron ore on the Mesabi Range are being depleted at an accelerated rate, the need for solving the taconite problem becomes evident.

Operations of this nature require tremendous sums for research and the tying up of capital over a period of many years. Furthermore, where the industry is essential to the national defense, as is the situation with respect to many of our metallic ores and minerals, the Department of the Interior feels that every effort should be made to assist new industrial enterprise designed to extend the life of existing ore reserves.

Nor is the problem confined to iron ores alone. One important mining venture that is currently under development in the Southwest involves an extensive low-grade deposit of copper and although it is adequately financed and work is currently being pushed, conditions can change and it may well be that some financial assistance will be required in the future—especially in the event of a threatened national emergency.

The CHAIRMAN. Doctor, how about aluminum; is that taking the place of steel and other metals to any appreciable degree? I hear we have so much aluminum—

Mr. BOYD. At the present time we are running largely on imported aluminum ores from the northern part of South America. We have some in production in this country. I can't give you the exact figure, but we are producing aluminum at about the rate of 1,200,000 tons a year.

The CHAIRMAN. In this country?

Mr. BOYD. Yes. I would like to check that figure; I am not sure of it, but it is a very small proportion of our iron production. I doubt if it would ever replace iron, substantially.

The CHAIRMAN. It is not being used very much as a substitute, then?

Mr. BOYD. A substitute in certain places, but not a replacement, by any means.

The CHAIRMAN. But they are substituting some of it?

Mr. BOYD. Yes, sir, it is a substitute for copper more than anything else.

The CHAIRMAN. It comes from northern South America, you say?

Mr. BOYD. Yes, sir, the major portion from Surinam, Dutch Guiana, and some from British Guiana.

The CHAIRMAN. What about the factories in this country.

Mr. BOYD. We have aluminum reserves of usable ore in this country. Reynolds gets theirs from this country from what is left of the relatively high-grade deposits.

The CHAIRMAN. Do they not have large deposits of bauxite in the West, in Arkansas and so forth?

Mr. BOYD. In Arkansas, yes. There are aluminum-bearing materials in the West, particularly in Wyoming, and there are large deposits of high-grade aluminum clays.

The CHAIRMAN. Have they ever gotten very far with kaolin? That is a form of clay, ore-bearing clay, and is rather costly.

Mr. BOYD. We have done a lot of research on aluminum-bearing clays, and will continue this work. This source can't compete with the high-grade bauxites today, but we are continuing research on them.

The CHAIRMAN. What about tin?

Mr. BOYD. Tin is virtually all imported.

The CHAIRMAN. Have you done anything on research of tin deposits in North Carolina?

Mr. BOYD. We have made examinations of deposits, sir, but they are not very extensive.

The CHAIRMAN. I understand that, but at least they are there, and that is the only place that I know of; isn't that so?

Mr. BOYD. There are some extremely low-grade deposits in New Mexico, South Dakota, and California.

The CHAIRMAN. New Mexico and North Carolina.

Mr. BOYD. There is a little in Alaska, and a small quantity is produced as a byproduct of molybdenum in operations in Colorado.

The CHAIRMAN. Are the tin deposits in Alaska and North Carolina more or less a low-grade type of ore?

Mr. BOYD. Yes, they differ one from the other, but they are of very low grade.

The CHAIRMAN. But you continue to study those deposits?

Mr. BOYD. We are doing nothing at the moment. We have examined them and we have done metallurgical research on them.

The CHAIRMAN. You think some day we may be able to use them?

Mr. BOYD. I think it is quite possible.

The CHAIRMAN. If you gentlemen have any questions, please do not hesitate to ask them, because I heard very much the same testimony in the Appropriations Committee on this subject.

Senator BENTON. I have never heard of any ore deposits in Connecticut or I certainly would have asked some questions.

Mr. BOYD. We have some copper deposits in Connecticut.

Senator BENTON. Well, I knew that of course.

Mr. BOYD. These enterprises cannot be considered as small business under the meaning of this bill. However, they do qualify under the defense provisions of the act.

Currently we are also faced with a perplexing problem with respect to manganese. If any one of our numerous mining companies is successful in developing a process for the utilization of low-grade manganese, or the extraction of manganese from open-hearth slags, capital will be required to carry such a project to fruition. Research in this field is expensive and there is need on national security grounds for accelerating such work. Without manganese our domestic steel industry, under present metallurgical practices, would be forced to produce an inferior product.

The CHAIRMAN. Manganese is a question that we always bring up before the Appropriations Committee. Are you getting anywhere with it? Are you doing very much with the development of manganese at all?

Mr. BOYD. We are doing extensive work in the Bureau of Mines in working on our low-grade deposits in this country.

The CHAIRMAN. Do they in any way compete with the material that we are importing for the stockpile?

Mr. BOYD. There is only one large deposit that is meeting competition today and that is at Anaconda and Butte, Mont. There are some smaller deposits which are producing and competing.

The CHAIRMAN. Can they compete with what we buy from overseas?

Mr. BOYD. Only those I have mentioned. The larger low-grade deposits cannot compete.

The CHAIRMAN. What about Colorado, do we have anything there?

Mr. BOYD. The only manganese deposits of importance we have in Colorado are in the Leadville district.

The CHAIRMAN. Are they developing that at all?

Mr. BOYD. We are now drilling the Leadville drainage tunnel which will develop that.

Senator BENTON. Are these small deposits owned by small companies, and if so, to what extent?

Mr. BOYD. The very small deposits which are scattered all over the country—and they are low-grade—are owned, as far as I know, by small companies.

Senator BENTON. To what extent do these small companies operate in these various fields?

Mr. BOYD. At the moment the small units in the mining are at a very low ebb. I would say they are virtually extinct.

Senator BENTON. That is what I thought. The industry today is mostly in the hands of large corporations.

Mr. BOYD. The operating units now are in the large corporations. There are some small ones, but very, very few.

Senator BENTON. In which fields would you find those small companies operating?

Mr. BOYD. Well, we have about 70 different minerals that are required in our industry and they are all produced in varying quantities; some of them in millions of tons and some of them in just a few hundreds or thousands of tons.

Senator BENTON. But the big corporations have not been attracted into those fields?

Mr. BOYD. That is right, however, in the base metals such as copper, lead, and zinc, there are small units operating in various parts of the country, but in the last 2 years the numbers have been declining very rapidly.

Senator BENTON. Could you make a guess as to the percentage of total metals mined by companies that we might call "small companies"? Would it be 5 percent or 2 percent? When you are dealing with 100,000,000 tons of iron at a crack here, it must be a very tiny percentage that is in the hands of small independent companies.

Mr. BOYD. My guess, Senator, would be about 10 or 15 percent in the hands of small companies. I do not happen to have that here, but I can give you some breakdown in the production of these various metals.

Senator BENTON. That is not necessary, but just to give me guidance in the over-all picture. I am interested in that to put this in a little better perspective from the standpoint of the interest of this committee.

Mr. BOYD. We made a study of it at one time, where we show the gross production from companies of various sizes. I think one of the other agencies did the same thing. As I remember that figure, it is about 10 or 15 percent, but it will vary from one metal to another.

Senator BENTON. Thank you, Mr. Chairman.

The CHAIRMAN. Please continue, Dr. Boyd.

Mr. BOYD. Needless to say there are other examples besides these that I have mentioned. Without considering mineral fuels, our industrial requirements are such that nearly 70 metallic and nonmetallic minerals are necessary to furnish the sinews of our transportation and communications industries, our chemical and construction industries, munitions and agriculture, and for countless other enterprises of our technological age. Many of these 70 minerals are produced in relatively small quantities and requires small-business operations. All too frequently they remain undeveloped for lack of financing.

It is impossible to predict just how the national investment company approach would open up capital to mining ventures. As Secretary Sawyer pointed out yesterday, however, there are features to the concept which might well apply and the result could not be measured until it was tried.

Mining depends in large part upon venture capital and although such capital has been available during the postwar years for new equipment and the expansion of existing plant facilities amongst the larger and well established minerals companies, the smaller independent operators have been in a less fortunate position, and with a few exceptions in specific commodities they are virtually extinct. The larger integrated companies, firms that not only mine but also refine, fabricate and sell their product, have continued to expand, but smaller units of the industry in some instances have been forced to close down

due to lack of working capital. It is the opinion of the Department of the Interior that the financing provisions of S. 3625 may be of assistance in overcoming certain disadvantageous factors that have and are now inhibiting operations by these smaller independent units.

Senator CAPEHART. May I interrupt, Mr. Chairman?

The CHAIRMAN. Surely.

Senator CAPEHART. You say here that many of the small companies have been forced to close down on account of lack of working capital. You also say that prior to the war they were operating quite satisfactorily. What has caused that condition to be brought about?

Mr. BOYD. I wish I knew the answer to that, Senator Capehart. This is a very complicated problem. One of the reasons is the steadily increasing costs of production; the cost of production has gone up and the price has not risen sufficiently to meet those costs. The capital requirements of these small units have gone up tremendously and the present markets are not giving enough return to meet these costs.

Senator CAPEHART. Do you think it might be well to attack the problem on the basis of putting them back to where they were prewar so that they could operate themselves and furnish their own capital?

Mr. BOYD. Yes, sir; I think if we could do that it would be fine.

Senator CAPEHART. Just what specific thing or things has or have happened to bring about the condition that you describe?

Mr. BOYD. Well, we find, as far as we can determine, that there is very little capital flowing into the exploration phases of this work, and that is where these small companies are largely concerned.

Senator CAPEHART. Why is that, do you know?

Mr. BOYD. No; I don't know.

Senator CAPEHART. Do you think it might be well for this committee to find out why?

Mr. BOYD. Yes, sir; I think it would. We have some ideas on it; the question of taxation seems to make it unprofitable for a man to put money into venture capital where, if he loses, he loses it completely. If he wins, he doesn't get very much return.

Senator BENTON. Does this same depletion factor work in metals as it does in oil, under the tax laws?

Mr. BOYD. Yes. The depletion for metals is 15 percent as against 27½ percent for oil.

Senator CAPEHART. Then would you say as a result of the direction in which our economy is going, either of its own weight or through virtue of governmental intervention, that we have brought about a situation here which now requires the government to step in with some other scheme to try to correct it; is that what you are saying?

Mr. BOYD. Certainly the economic trends are working against the growth and strength of the small companies in the mining industry.

Senator CAPEHART. Isn't that true not only in the mining industry but in every phase of our economy?

Mr. BOYD. I think that is quite true, but I am a better judge of mining than I would be of others.

Senator CAPEHART. Then it might be better for this committee to study the causes and the effects of what is causing this condition before they make any effort to solve the problem?

Mr. BOYD. I wouldn't be a judge of that, Senator. It needs to be studied, certainly.

Senator CAPEHART. Well, it would sound like a sound idea, would it not?

Mr. BOYD. Yes, sir.

Senator CAPEHART. Because you make the statement here that prior to the war the condition was all right and since the war you say that they are closing down these small mines, being unable to secure capital—

Mr. BOYD. There was a difficult period before the war, during the depression. There was some government assistance available during the war and a lot of small operations came back into the picture. Since that time the prices have dropped sharply, but recently they have been going up rapidly.

Senator CAPEHART. You were here yesterday when we suggested an exemption of \$50,000 on income tax each year and also a 5-year amortization plan. Do you feel that might well help this situation?

Mr. BOYD. If that could be worked out it would definitely help, sir.

Senator CAPEHART. It would definitely help, in your opinion?

Mr. BOYD. Yes, sir.

Senator BENTON. Are the big companies doing well?

Mr. BOYD. As far as we can determine from our examination of this problem, the big companies are not having too much difficulty. They are doing more development and exploration work; in fact, virtually all the exploration work that is going on today is being done by the larger corporations.

Senator BENTON. But financially they are doing well. So the problem here is not something that affects the industry as a whole, but rather something that affects the small independent operator.

Mr. BOYD. That is so; yes, sir.

Senator CAPEHART. The question is, what brought that about? We discussed it a moment ago and you thought it was our tax laws, and other things.

Mr. BOYD. Costs against prices; there is very strong competition from overseas sources.

The CHAIRMAN. Isn't the United States Government buying from overseas at lesser prices?

Mr. BOYD. They are buying it on the market, regardless of source, hence a lot of it is being bought domestically.

The CHAIRMAN. Because of Government stockpiling?

Mr. BOYD. I am referring to the Government stockpiling operation which has helped to maintain the price.

Senator CAPEHART. Do you feel that permitting oil imports and mineral imports into this Nation might well be having an effect on it?

Mr. BOYD. Competition from foreign sources in some of these fields is difficult for some of these people to meet.

Senator CAPEHART. Do you happen to know whether or not all phases of the Government are buying a large percentage of their gasoline and oil, and so forth, from the small producers of the United States?

Mr. BOYD. I don't know, sir.

Senator CAPEHART. Is there any way that you might be able to find that out?

Mr. BOYD. You mean if the Government procurement agencies are buying from large or small producers? I think we can find that.

Senator CAPEHART. Do they buy gasoline from the big fellow or do they buy it from the small fellow?

Mr. BOYD. I could find that out, sir.

Senator CAPEHART. I think it would be interesting, Mr. Chairman.

The CHAIRMAN. Without objection, that may be inserted into the record.

(The following was later received for insertion in the record:)

There is no breakdown available on gasoline alone, it is included under petroleum products with Diesel fuels, kerosene, lubricants, and other liquid fuels used in varying quantities.

Petroleum products are purchased for the Federal Government by two agencies; the Armed Services Petroleum Purchasing Board for the Military, and the Bureau of Federal Supply for civilian activities. Purchases for the military are several times larger than those for civilian use.

Military purchases in the 1949 fiscal year, divided between large and small companies, were as follows:

	Number of contracts	Total cost
Large companies.....	629	\$513, 656, 536. 45
Small companies.....	608	27, 091, 978. 77
Total.....	1, 237	540, 748, 515. 22

Classified as large companies are those having 500 or more employees, as defined in Public Law 413.

Invitations to bid are, in general, sent to all who indicate a desire to be on the list of bidders.

Military purchases shown above include oil from both continental United States and foreign sources.

Senator CAPEHART. That might be one way to help these small fellows.

The CHAIRMAN. Then we have the situation that has been testified to so often before the Appropriations Committee on stockpiling, that the Government is buying certain materials now that they could not buy during the war, when they could not import. That made prices rise; whereas today many of the larger corporations have firms in other countries, too. For instance, copper; they have it in South America as well as in this country, and they can bring that in here, which is all right, but it forces down the price for small business. Is that right?

Mr. BOYD. That is correct, sir.

The CHAIRMAN. That happened all last year and this year in the stockpiling program.

Mr. BOYD. The decline of discovery of resources in this country has forced us to go look for minerals all over the world.

The CHAIRMAN. Then if we have a war and imports are cut off again, these companies would have to start all over again; is that right?

Mr. BOYD. That is right.

Senator CAPEHART. Is it not a fact that anything that has any venture to it at all today; that under our tax laws if they are a corporation they pay 38-percent taxes if they make money, and then when they declare dividends to themselves they again pay, let us say, half or more of the earnings out, that they are almost to point today where nobody wants to make an investment in anything of a venture nature?

Mr. BOYD. That seems to be the situation; yes, sir.

Senator CAPEHART. Well, would it not sound more logical to you to correct that situation and get the flow of venture capital in the business again, rather than to inject the Government into going into the banking business and the loan business and thereby demanding more tax money, and thereby making the situation worse rather than making it better?

Mr. BOYD. I always feel that the freedom of private enterprise to do these things would be a more advantageous approach to the problem. It is an entrepreneur approach and has to be done with courage, and must be done with the incentive of return.

Senator CAPEHART. In other words, you wouldn't invest money in a venture with venture capital, and if you won you were going to pay 38 percent in Federal corporation taxes, and then if you were going to have to pay out at least 50 percent or more of the money in tax that you received from the corporation as dividends, you would certainly hesitate to invest X amount of money in that sort of a project, knowing that if it failed you would lose all your capital, and if you won the best that you could do would be to keep—I am talking about you as an individual stockholder now, if you were in a corporation—the best you could possibly do would be to keep 15 or 20 percent of your total earnings.

Mr. BOYD. I might answer it this way, sir: If I were a consulting engineer and if an individual approached me and asked about going into mining today under present conditions, I would not recommend they do so, unless it was an exceptionally high grade mine and you had it well proven.

Senator CAPEHART. Unless it was a cinch?

Mr. BOYD. That is right.

Senator CAPEHART. Do you not feel that the other 150,000,000 Americans feel just as you do?

Mr. BOYD. I would not be able to judge, but I assume they would.

Senator CAPEHART. But isn't that the problem that is facing us, and don't you think that is the problem we ought to solve, rather than injecting the Government further into the banking and loan business, requiring more taxes and more controls and more red tape?

Mr. BOYD. Well, I understood in this particular bill it was intended to put this thing into private hands?

Senator CAPEHART. There is an effort to do it, but I just wondered if it was the proper method. I am not arguing the merits or demerits of the bill. I am just wondering, it might well be desirable, but I think some other things are more desirable, and I think other things should possibly come ahead of this. At least they ought to come simultaneously.

Mr. BOYD. I am not able to judge the requirements of Government income against the means of doing these things.

Senator CAPEHART. Of course, I presume there is no limit to the amount of money the Government could spend if they had to.

Mr. BOYD. I know that we could spend a great deal more profitably if we had it.

Senator CAPEHART. At the moment, the legislation before us—if we pass it—would require 15 or 30 billion dollars in taxes. I presume a



government is like an individual; they never get through dreaming about what they might do or might spend money for.

The CHAIRMAN. Senator Benton?

Senator BENTON. I am interested in whether the factor of working capital is a real factor here. Senator Capehart is talking about taxes, in a general sense. The fellow going into mining has a much better break on taxes, as I see it, than men going into other lines of business, because he does have this 15-percent depletion. So instead of talking about this as a general problem, I would like to stick to the Bureau that you represent for a minute and stick to mining for a minute, where we do, under the tax laws, give a man an advantage he does not get when he starts to make glasses or matches, or something else, because he gets his 50-percent depletion allowance. That is true, is it not?

Mr. BOYD. It does give him a benefit, but it is a means of recovering a wasting asset.

Senator BENTON. Now, is not the problem that of cost rather than working capital? If I am a little fellow and owned a mine and my costs go up and up and I get so I cannot operate profitably, I actually shut it down. But if I can operate it profitably I do have the asset in the ground in the form of the metal, whatever that asset is worth, which is something that is not true of many businesses, where their assets are not as tangible as having metal in the ground. If I could operate it profitably, are there not places that I could go and get working capital with a record that proves that I can operate it profitably?

Mr. BOYD. Senator, may I say this: This is one of the number of problems in this mining field. There are some deposits that have been discovered that do need working capital, but the ore reserves have not been sufficient to serve as collateral, but for pure exploration you have to get something else; this will not do the job.

Senator BENTON. I see.

Mr. BOYD. The problem of cost against market price for metals now, that requires other solutions to develop a satisfactory result. But there are intermediate costs where ore has been discovered, but is not large enough to give the collateral necessary for a loan.

This is only attacking one part of the problem.

Senator BENTON. Yes. There are two kinds of things you are talking about, the nonexistent companies—where you want to encourage exploration—and the existing small company that would go ahead with its mining operation if it had working capital.

Mr. BOYD. Yes; assuming it had sufficiently high grade ore to meet the costs, and there are deposits like that.

Senator BENTON. I am not sufficiently familiar with the requirements of the RFC to know what, under present law, the latter type of company could come to the RFC and expect as a loan, and what kind of presentation could be made with the asset of having the ore, and cost figures that show the operation could be profitably conducted if he had working capital.

Mr. BOYD. I do not know the details of it. I have knowledge of that, but I think there are some RFC men present here, sir, if you are interested in that.

Senator BENTON. I wonder what this new bill adds that we do not have under the RFC for that particular type of enterprise?

Mr. BOYD. I think that the answer would probably be that these funds would be in the hands of people out in the area—private bankers—where a small man could come for funds.

Senator BENTON. I shall ask the RFC about that. Thank you.

Mr. BOYD. As Secretary Sawyer pointed out, under title V, which in this bill gives specific authority to the Secretary of Commerce, the small operator cannot maintain his own technical staff, and this principle, as applied to small industries other than mining, applies equally to mining. The Bureau of Mines has long applied the principle of technical aid in its field, but not, however, with the same broad authority as is proposed here and very little in managerial aid. We would expect the Department to cooperate with the Secretary of Commerce in carrying out the provisions of this act.

The Department of the Interior believes that any measure that would have a beneficial effect through furnishing additional incentives for new mineral development is desirable. S. 3625 should be of assistance in overcoming some of the current inertia that has resulted in virtual stagnation of an important segment of our metal-mining industry.

The CHAIRMAN. Are you familiar with title V?

Mr. BOYD. Yes, sir.

The CHAIRMAN. Under that section, we are giving aid to our own people; is that right?

Mr. BOYD. We are giving some, but I say not enough.

The CHAIRMAN. But I say, why should we give it to foreigners and not to our own people? That is what title V in this bill gives.

Mr. BOYD. That is right.

Senator CAPEHART. Is it technical aid or is it an atmosphere under which they can operate and invest money freely and operate their business freely and make money?

Mr. BOYD. I believe they need both.

Senator CAPEHART. Do they not also need protection against imports at a very, very low figure that makes it impossible for them to produce and sell at the price that we are now permitting imports to come into this country?

Mr. BOYD. That may be a factor, Senator.

Senator CAPEHART. Isn't it the big thing? Certainly it is the differential between price and cost, and imports have an effect on that.

That is all.

The CHAIRMAN. Thank you, Doctor.

The next witness is Mr. Gunderson of the RFC.

Mr. Gunderson, I understand you have a prepared statement.

Mr. GUNDERSON. I do, Mr. Chairman.

The CHAIRMAN. I understand that the Select Committee on Small Business had the RFC before them some time last week. Unfortunately I was tied up with appropriations and was unable to be present at that session, but I did read some of the testimony and was told what you said. I am advised that those hearings will be printed simultaneously with these, so we will make your testimony before that committee a part of this record, by reference.

The CHAIRMAN. You may proceed with your statement, Mr. Gunderson.

**STATEMENT OF HARVEY J. GUNDERSON, MEMBER, BOARD OF DIRECTORS, RECONSTRUCTION FINANCE CORPORATION**

Mr. GUNDERSON. Mr. Chairman, I appreciate this opportunity to discuss with the Banking and Currency Committee the pending legislation to aid small business, particularly the proposed Small Business Act of 1950, S. 3625. The Chairman of the Board of Directors of the RFC, Mr. Harley Hise, who had hoped to testify, has asked me to express his regrets that he cannot be here this morning.

The CHAIRMAN. Let me ask you this: Has the Board of Directors discussed this bill in their meetings?

Mr. GUNDERSON. Yes, generally.

The CHAIRMAN. What is the attitude of the entire board?

Mr. GUNDERSON. I expect to present that this morning.

The CHAIRMAN. I beg your pardon. Go ahead, please.

Mr. GUNDERSON. My comments are directed particularly to the provisions of title III of S. 3625. This title would add a new paragraph (2) to the present section 4 (a) of the RFC Act which would authorize the Corporation to make loans to any small-business enterprises—as determined pursuant to section 603 of the Small Business Act of 1950, and the classifications established thereunder—which does not have collateral adequate for its credit requirements, provided the management abilities, potential earnings, and other factors afford a reasonable expectation that the loan will be repaid.

The CHAIRMAN. What law is that you are quoting?

Mr. GUNDERSON. The Small Business Act of 1950. It would change section 4 (a) of the RFC Act.

The CHAIRMAN. You are talking about the amendment in this act?

Mr. GUNDERSON. Yes.

The CHAIRMAN. Not in the law?

Mr. GUNDERSON. This proposed act.

The CHAIRMAN. That is what I wanted the record to show—the proposed act, not the act.

Mr. GUNDERSON. Since the present RFC Act requires that loans to business enterprises must be so secured as reasonably to assure repayment, it obviously is the purpose of the proposed amendment to shift the emphasis from collateral security to other types of assurance of repayment; namely, the abilities of those directors, officers, or individuals managing the small-business enterprise, the potential earnings of the business, and other pertinent factors.

I believe that I should inform the committee that in passing on loan applications of small-business enterprises our directors have always carefully considered the management, the past and present record of earnings, and future prospects of the borrower.

In May 1946, the RFC established a Small Business Division in order that loan applications of small-business enterprises might be given special consideration and analysis and that their legitimate financial needs might be handled within the framework of the RFC Act, but independent of our office of loans.

In 1948, the RFC Act was amended by the Congress by adding as one of the purposes of RFC loans “to encourage small business.” I believe that we have implemented this objective to the fullest prac-

tical extent within the limitations prescribed by the act. Approximately 90 percent of all the business loans authorized by the RFC during the past 2 years have been in amounts of \$100,000 or less, and each month from 8,000 to 10,000 small-business enterprises seek the Corporation's advice and assistance.

The CHAIRMAN. How many do you approve?

Mr. GUNDERSON. Loans per month? Five hundred to six hundred a month.

The CHAIRMAN. You say "each month from 8,000 to 10,000."

Mr. GUNDERSON. That is the amount of inquiries we have, sir.

The CHAIRMAN. How many received loans?

Mr. GUNDERSON. I can give you the actual figures.

The CHAIRMAN. Will you make it available for the record?

Mr. GUNDERSON. We had them and we put them in the other record.

The CHAIRMAN. I know you did, but I would like to have those figures in this record.

(The information referred to follows:)





Mr. GUNDERSON. The application figure is about 1,200 a month.

The CHAIRMAN. About five to six hundred a month, or about half the applications, are approved?

Mr. GUNDERSON. A little higher than half.

The CHAIRMAN. Why aren't the other half approved?

Mr. GUNDERSON. Because we do not think there is a basis for making the loan.

The CHAIRMAN. Do you think this bill would give you the basis for making loans that you would not make now?

Mr. GUNDERSON. There are cases—not a large number—

The CHAIRMAN. We would not want to pass the bill to give you the right to make as many loans as you are making now when you yourself say that the loans are not ready to be made.

Mr. GUNDERSON. I think the bill would certainly clarify the basis on which we consider loans. I believe it would have a tendency to have us make a few more loans.

The CHAIRMAN. Just a small proportion?

Mr. GUNDERSON. I do not believe it would be very many more because there is nothing in this bill, as I understand it, that would eliminate collateral requirements or would eliminate the necessity for finding that it was a good loan.

The CHAIRMAN. I am glad to hear you understand it that way.

Mr. GUNDERSON. That is the way I understand it.

The CHAIRMAN. What about the 15-year provision; would that help you any?

Mr. GUNDERSON. The 15-year provision—well, I wouldn't say it would not help. You see, for 11 years we made loans without any limitation at all. During that time the vast bulk of business loans were made from 3 to 5 years, and that is still true.

The CHAIRMAN. Three to five years for the average business loan?

Mr. GUNDERSON. Three to five years is the average business life of all the business loans that we make, and I do not see any particular reason for making a loan for a longer period than it takes to work it out and repay it. There might be cases—and there have been in the past—where a longer maturity would be helpful, but my experience is that the longer maturities usually apply to the bigger loans.

The CHAIRMAN. In other words, a small business would need 15 years?

Mr. GUNDERSON. Well, I wouldn't say there couldn't be cases, because when you deal with capital improvements you might very well get in to a situation where you would need a longer period of time; but, by and large, I would say 99 percent of all the business-loan applications we have are fully taken care of by a period of less than 10 years. That has been our experience in the past.

The CHAIRMAN. Do you know the percentage of borrowers who go to the bank for loans first that are approved or disapproved? You say you turn down half or approximately half. I wonder how many the banks would turn down that ever came to you. Do you have any idea on that? I am speaking about the regional offices, now.

Mr. GUNDERSON. You see, we do not permit our regional offices to decline any application.

The CHAIRMAN. Well, they can make them under \$100,000 themselves; can they not?

Mr. GUNDERSON. That is right. The figure I gave you includes all the loans.

The CHAIRMAN. Oh, I see.

Mr. GUNDERSON. Most of these loans of \$100,000 and less are made by the loan agency offices without our assistance.

The CHAIRMAN. I see, but they must agree, of course, with the banks.

Mr. GUNDERSON. Yes, sir.

Senator BENTON. Would not this bill get you more applications, Mr. Gunderson?

Mr. GUNDERSON. It has already. We have had as many as 100 calls in one day just on the newspaper accounts of this bill.

Senator BENTON. You see, Mr. Chairman, that is another thing that should be clarified, because if you get 10,000 fellows coming in in a month for advice and consultation, only 1,200 of them putting in applications, the other 9,000 might decide they won't put in an application because it is going to be turned down, and therefore there is no use spending their time or jeopardizing their credit standing by putting in an application that is going to be turned down. I would assume this bill would encourage more people to put in more applications, and your ratio of loans might go down on that basis, actually, instead of going up. You might have a lot more very bad risks come in, so instead of 50 percent on applications you might find your percentage falling.

Mr. GUNDERSON. Of course, any increased publicity has a tendency to increase our own applications. We have had an increase recently.

The CHAIRMAN. You said you had as many as 100 calls a day, is that right?

Mr. GUNDERSON. In one office, yes, sir; an increase in calls.

The CHAIRMAN. You mean in the regional offices?

Mr. GUNDERSON. Yes, sir.

The CHAIRMAN. How many regional offices do you have?

Mr. GUNDERSON. Thirty-one.

The CHAIRMAN. Well, you would not have 100 in each office, would you?

Mr. GUNDERSON. I don't know, Senator. I talked to somebody from one of our agencies yesterday who said that when the accounts of this bill were carried in their newspaper somehow they got the impression that it had already been passed and it resulted in about 100 telephone calls.

The CHAIRMAN. Would you have any idea of what those calls were about?

Mr. GUNDERSON. Well, they thought that no collateral would be required and were interested in getting a loan.

The CHAIRMAN. Who said that?

Mr. GUNDERSON. I don't know.

The CHAIRMAN. The bill certainly does not say it.

Mr. GUNDERSON. The bill does not say it, in my opinion.

The CHAIRMAN. If everybody believed there was no collateral needed you would get more than 100 telephone calls, I imagine.

Go ahead, Mr. Gunderson.

Mr. GUNDERSON. The loans made by this Corporation to small business have aided eligible enterprises of almost every type in every State in the Union.



The CHAIRMAN. In the hearings we had some time ago—I have forgotten now—did you put down the number of loans that you made of less than \$100,000. Did you put the total down or did you put the region down?

Mr. GUNDERSON. It is all in there.

The CHAIRMAN. Did you put it regionally, by States?

Mr. GUNDERSON. I was just going to say, a summary which we recently submitted to Senator Fulbright as chairman of the RFC Subcommittee of this committee and to Senator Sparkman's Small Business Committee discloses that 9,578 loans to all classes of industry, by States, totaling \$981,799,311, were approved from January 1, 1948, through March 31, 1950.

The CHAIRMAN. Would you put that tabulation in this record, too?

Mr. GUNDERSON. Yes, sir.

The CHAIRMAN. Thank you, sir.

(The information referred to will be found in the files of the committee.)

Mr. GUNDERSON. It is to be expected that a number of loans thus made would be considered marginal if tested by usual banking standards. However, with few exceptions, these loans have enabled worthy credit risks to succeed and many times have been the difference between a successful business and bankruptcy.

In addition to the actual loans made, the RFC, by utilizing its personnel trained in solution of business problems relating to management, operations, and accounting. Suggestions are made for possible solutions to the problems as well as sources from which expert technical and consulting assistance can be drawn.

We feel that the aid thus given has been of substantial benefit to the economic stability of the country and has contributed materially to employment of labor and production of goods and services.

Section 303 of the proposed bill amends the RFC Act by extending maximum maturity of loans to business enterprises from 10 to 15 years. This amendment would make effective the recommendation which the President has made in two messages to the Congress. We recommended last year that the Corporation be permitted to make loans with longer maturities than 10 years, in order that RFC in appropriate cases may authorize such maturities as best will serve the needs of the business enterprise to which financial assistance is granted. Section 303 also provides that in any case where a loan to a business enterprise is made for a purpose essential to the national defense, as determined by the President, the maturity may be such as the Corporation determines. We believe that both of these provisions with respect to maturities are desirable.

Senator CAPEHART. Mr. Chairman, if I might interrupt, I would like to ask this question:

Do you feel that RFC, or any new agency, should be permitted to make equity loans or capital loans?

Mr. GUNDERSON. Of course, Senator Capehart, the definition in Webster's dictionary of the word "equity" means the value in a company over and above its indebtedness. I do not think that our loans may be considered definitely term loans, and as such—

Senator CAPEHART. Well, let me put the question this way: Do you think RFC or any other agency of the Government should make loans, what we normally think of as capital loans?

Mr. GUNDERSON. I would say practically all of our loans throughout the life of the RFC have, to a large degree, been capital loans, but they have always been loans, usually for working capital. However, they are secured by fixed assets and as such they are not a current loan in the sense you get a 60- or 90-day credit from the bank. They are a definite loan for a term of years secured by the fixed assets. I believe that is a capital loan. I think that any time the word "loan" means that the money you give a borrower will be paid back, and I don't think at any time you make a loan that you are giving a borrower equity, because you have to have something in there that will assure you that you are going to be paid back. That is the borrower's equity.

Senator CAPEHART. Let me put it this way: Do you feel that RFC or any other governmental agency should ever make a loan for fixed assets?

Mr. GUNDERSON. I think there is a definite need for term loans on fixed assets.

Senator CAPEHART. You mean whereby the borrower invests the money in fixed assets?

Mr. GUNDERSON. Under the act, as we have had it, we have never loaned money to permit people to make investments. That is the one place that we have thought was very clearly defined and did not contribute to the economic stability of the country.

Senator CAPEHART. You have made loans to build warehouses. Is not that a fixed asset?

Mr. GUNDERSON. Yes; but we do not make loans, for example, Senator, so that someone can build an office building and lease it. We do not make that kind of a loan. We do not make loans to individuals who buy and not run a business or a part of a business.

We make loans to businesses to permit them to continue to run.

Senator CAPEHART. I do not think I am making myself clear. Maybe I cannot. I know what I have in mind, and I think you know what I am thinking about, too.

Mr. GUNDERSON. Well, are you talking about purchases of stock?

Senator CAPEHART. No; I am thinking in terms—it seems to me the purpose of RFC originally was to make short-term loans for companies and other institutions that got into trouble, where their assets were primarily frozen and would be frozen for a certain period of time. As they unfroze their assets they would repay their loan.

Mr. GUNDERSON. That is correct.

Senator CAPEHART. I think that was the intention of RFC at the beginning, and I am not so certain that it should not be its intention today.

Mr. GUNDERSON. I do not mean to be technical, but at the beginning we had no authority to make business loans at all. That came in about 1937.

Senator CAPEHART. Now, it seems to me as though RFC is working itself into a position, as this bill I think might well do, where the Government is making long-term loans whereby the money is invested in what we normally think of as fixed assets; working capital of the individual company that gets the loan. Is that a good thing or a bad thing?

Mr. GUNDERSON. I think that as long as the Congress makes a condition precedent, that private channels of financial assistance have

been exhausted, which it has, it is a good thing, because our experience is that there is a field where a small loan can be just as good as a large loan, but that the private sources of credit for a term loan for a period of years on fixed assets are not available, because that type of business is a very unremunerative type of business. I think I testified before this committee that it probably costs us money to make a loan under \$75,000, and in the normal course of events a private lender would not do that.

Senator BENTON. Well, is it true, Mr. Gunderson, that any loan that a fellow expects to pay back to you out of earnings no matter what he does with the money, is for all practical purposes a capital loan?

Mr. GUNDERSON. I think practically all of our loans are capital loans because my understanding of a capital loan is a term loan for fixed assets.

Senator BENTON. I am just trying to clarify Senator Capehart's question. It seems to me you are in the business of making capital loans.

Mr. GUNDERSON. Yes.

Senator BENTON. And all this money is capital because the fellow expects to earn this money to pay you back, which will leave him with the original assets, no matter what he does with the money he borrows from you.

Senator CAPEHART. I think that is the direction in which RFC is being operated, and I think that is the purpose of this bill. That was not the original purpose of RFC. The original purpose was to unfreeze, for a period of time, frozen assets and they would repay their loan out of their unfrozen assets.

Senator BENTON. I am only trying to add clarification here, because I agree with you, Senator Capehart. This is an operation that was providing capital—as I understand capital—it is making capital loans and that is what the RFC does today.

Senator CAPEHART. They are making them and we have a bill before us, of course, that goes much further. The need for such, if there is a need, is brought about through virtue of certain economic situations that have developed in this country both by the Government and, it might well be, by private industry. I am wondering if we should not cure the cause, rather than to go into more of this sort of thing which further injects the Government into business.

In other words, would you recommend an exception for small business from taxes?

Mr. GUNDERSON. Well, I have thought—and I believe I have testified before the committee on several occasions—that I think there would be some adjustment on the way a small business has to report on taxes, the basis on which it amortizes its facilities, and several other things, because what has happened, the effect of the taxes that we have had to have in this country since the beginning of the war, has been to make loans that before the war were definitely short-term loans and bankable, as opposed to long-term loans that are not bankable.

Senator CAPEHART. Because of the high taxes they are forced to pay?

Mr. GUNDERSON. I think it is a question of mathematics. If a man made X dollars before the war he did not have to pay 38 percent of it, and as a result the bank might lend him the money he needed to mod-

ernize or use for working capital, when they could see that he was able to pay it back within a year or so. Now, there isn't any question that that period, under the same set of facts, has been lengthened, and it has been lengthened not only by taxes, but by increased costs in proportion to the profits he received. In other words, he has to pay out more money with a lot less than he takes in.

As long as you have that situation he has to be helped over that period.

Senator CAPEHART. Let me ask you this: If we had a 5-year amortization plan, which I shall introduce as an amendment to this bill, would it not be helpful to you—

Mr. GUNDERSON. It would cut down the number of loans we make.

Senator CAPEHART. And would not likewise be helpful in assuring repayment of the loans that you do make?

Mr. GUNDERSON. It would do more than that, Senator. It would put more of our loans back into private lender's hands, because all you are talking about is a question of mathematics. If you assume the exact earning figures and cost figures, if you let them amortize facilities for 5 years, and now they have to amortize them for 40, they will have more dollars available for debt reduction, and it will encourage private lenders to make those loans.

Senator CAPEHART. And it will help the little fellow. It will help the big fellow, but the big fellow will not be interested in it because at the end of 5 years, you see, you have no amortization for tax purposes, and therefore you pay taxes on every dollar that you earn without any amortization. But it enables the little fellow, with limited capital, to plow his profits back into his business; it makes your loans more sound; it makes the loans private industry makes industry and individuals more sound, because there is more chance to pay them back in a short period of time.

My opinion is that that one piece of legislation will do more to help small industry in America than anything we could do, and I will include that in the bill that is before us.

Mr. GUNDERSON. I think that you will find that that is quite a widespread opinion, and practically everybody will agree with you on that. I think the only problem we might run into is one of mechanics of administration by the Treasury. They might need a period of years in which to permit them to get their amortization on that basis, but I feel reasonably sure that if they were given a proper period of time to adjust, it would have a great impact upon the situation.

Senator CAPEHART. How else are you ever going to encourage small business under the existing tax structure if you do not do it?

Senator BENTON. Excuse me. Would you not favor letting a businessman set his own depreciation rate?

Mr. GUNDERSON. Yes, indeed.

Senator BENTON. Just let him depreciate it any way he wants?

Mr. GUNDERSON. I think you would have to provide a period of years, because everybody would depreciate it next year and that would have a terrific effect on the Treasury, which would not be desirable. But I think if you went to a point, say, over a 10-year period, working gradually toward a point and let them set their own depreciation—

Senator BENTON. Your goal would be to let every businessman set his own depreciation rate?

Mr. GUNDERSON. I personally think it is a good thing, but the difference between that and giving him 5 years is not too great.

Senator BENTON. May I say for the record that I wholly agree with Mr. Gunderson, and I agree with Senator Capehart. I would like to see us work toward a plan by which businessmen could set their own depreciation rates. I believe it would be, as Senator Capehart says, a tremendous incentive to American enterprise.

Senator CAPEHART. I would like to say to the able Senator that I have introduced a bill in this Congress to do that sort of thing, and I introduced it in the Eightieth Congress to do that sort of thing. It has been before the Senate Finance Committee now for about 3 years.

Senator BENTON. I do not know the problem of adjustment from the standpoint of the Treasury. It might take some time to get there.

Senator CAPEHART. The only possible argument against it is that the Government will lose some revenue the first year, the second year, the third, fourth, and fifth years. After that, of course, they would collect more in taxes.

Senator BENTON. With the rising tax rate we seem to be faced with, the probability is that over a 15-year period the Treasury would make a lot of money.

Mr. GUNDERSON. Yes.

Senator CAPEHART. They would collect less taxes progressively for the next 5 years, but after that they would collect more taxes.

Senator BENTON. Unhappily, I think that is right.

Senator CAPEHART. Well, there is not any question about that. That is exactly the way it would work. That is the argument against it, and the Government needs the money at the moment.

Senator BENTON. It is one of the most important things that could be done for the independent small operator. I concur wholly, it would have a big effect on his borrowing and on his ease of getting private money, instead of having to go to the Government or even to the banks.

Mr. GUNDERSON. Yes.

Senator CAPEHART. I introduced the bill when we first started talking about the Government entering the housing field on the basis that if we would permit the amortization of these facilities it would be a great incentive for the doctors, lawyers and business institutions and the manufacturers to build the houses themselves if they could amortize them over a 5-year period. My opinion is if we had done that the Government could have practically stayed out of the housing business.

Senator BENTON. Have you done anything, through the RFC, to encourage review by the Treasury on this point of amortization because it is an important factor on your loans and on the whole problem of equity capital.

Mr. GUNDERSON. We have discussed it with them, and I think the Treasury agrees that it is desirable, and I think it is a problem of working out a program. I think they have had it under advisement. I believe Secretary Snyder, on a previous occasion, has testified in favor of the purposes.

The CHAIRMAN. Have you discussed it with Mr. Stam?

Mr. GUNDERSON. I have not.

Senator CAPEHART. I can give you the answer. The answer is they don't want to lose the revenue; they don't want to run a deficit.

The CHAIRMAN. Go ahead, sir.

Senator BENTON. That is a laudable goal, Senator Capehart.

Mr. GUNDERSON. As I have previously stated, the present requirement of the RFC Act is that loans must be so secured as reasonably to assure repayment. This, as well as the proposed new paragraph, means to me that after consideration of all factors the RFC must find that there is reasonable expectation that the loan will be repaid. The difference in the two provisions, as I see it, is that the emphasis is shifted from collateral security, which affords a tangible assurance, to other types of assurance which are more or less intangible.

We have no objection to section 302 of the proposed legislation which reiterates the prohibition of the present law against RFC making loans where the financial assistance requested is otherwise available on reasonable terms.

Section 302 adds, perhaps unnecessarily, specific language which would prohibit loans if the credit is available from the national investment companies, for the establishment of which provision is made in title II of the bill. This provision, if retained in the bill, will undoubtedly require some clarification, probably by administrative regulation.

As the members of this committee know, the RFC, which was created by the Congress in 1932, has made loans to practically every segment of business and commerce and has realized in connection with its lending operations a net profit of approximately \$560,000,000, after paying all operating expenses, administrative costs, and providing reserves for losses of approximately \$100,000,000.

The CHAIRMAN. Let me ask you this: How much money did you make last year?

Mr. GUNDERSON. We made between \$17,000,000 and \$18,000,000 before reserves. We actually paid about \$1,000,000 into the Treasury because we put all the rest of it into reserves.

The CHAIRMAN. What is your reserve now?

Mr. GUNDERSON. About \$100,000,000.

The CHAIRMAN. Now you are asking for quite an increase in appropriations for next year. That is mostly in connection with the FNMA operations, is it not?

Mr. GUNDERSON. No, not entirely, business loans.

The CHAIRMAN. I said "mostly."

Mr. CONSIDINE. That is business loan authority. The Chairman's letter of the other day addressed to—

The CHAIRMAN. I have not seen the letter yet.

Mr. CONSIDINE. The previous request was for FNMA.

The CHAIRMAN. You have \$50,000 under the deficiency bill now and you asked for \$600,000. I do not have the bill in front of me but that is what my memory is.

Mr. CONSIDINE. That is for administrative expenses.

The CHAIRMAN. Well, is that not in connection with FNMA?

Mr. CONSIDINE. No, Senator.

Mr. GUNDERSON. Business loans are going up terrifically.

The CHAIRMAN. Did you need the whole \$300,000? The Chairman wrote that you only needed \$300,000, that you could get along with that.

Mr. CONSIDINE. On the 1951 budget the House reduced our requests by \$1,100,000; \$600,000 of which was for custody costs.

The CHAIRMAN. So you asked us to put the \$600,000 back.

Mr. CONSIDINE. That is right.

The CHAIRMAN. Then I understood later on that you could get by with \$300,000, is that right?

Mr. CONSIDINE. Senator, in 1950 we had a deficiency request for about \$150,000.

The CHAIRMAN. I am not talking about the deficiency, I am talking about the 1951 budget.

Mr. CONSIDINE. Yes.

The CHAIRMAN. The House cut it \$600,000 and you asked that it be restored?

Mr. CONSIDINE. That is right, sir.

The CHAIRMAN. Now I understand you might get by with \$300,000.

Mr. GUNDERSON. I doubt it.

The CHAIRMAN. Well, you better talk to somebody about that.

Mr. GUNDERSON. I would appreciate it if we cleared that up.

Senator BENTON. Is that rate of earnings going up?

Mr. GUNDERSON. Going up.

Senator BENTON. What is your comment on our private financial institutions in this country today that have permitted us an opportunity to open up a Government corporation able to earn \$560,000,000 in 18 years? How many banks in the United States have earned that much money in the last 18 years?

Mr. GUNDERSON. Very few but there is this difference: We do not have to pay any income taxes; we are not subject to review by the comptroller of the currency, FDIC, the Federal Reserve Board, the State supervisory authority—I am not being critical but I think that the banks by and large go about as far as they are permitted to go in making loans.

I do not share the views held by some, other than the fact that different people run them and different people look at things differently and some bankers are overly cautious. I think by and large they do as much as their charters and their regulations permit.

Senator CAPEHART. Would you not say they are overly cautious because of the bank examiners?

Mr. GUNDERSON. I have heard that rumor, Senator Capehart.

Senator CAPEHART. There is no question about it.

Mr. GUNDERSON. That is part of it. The other part of it is that in the banking business you have a basic concept of lending that is entirely different than that of our Corporation. It is not the bank's primary responsibility to make loans, it is to keep their depositors' money and give it back to them.

Senator BENTON. I think you put your finger on the point right there.

Mr. GUNDERSON. Now, in our case, if we make a loan for 10 years, at least so far nobody has ever asked us to return that money until we got through using it and, consequently, our position is much more comparable to an insurance company's investment program than it is to a banker's investment program.

In the case of the insurance companies you have, I would say, 100 percent a question of simple economics. It costs them money to

administer loans of much under \$1,000,000, so they just do not do it. As a result, we get that business.

I would say that if all of our loans were under \$100,000 we would have to do—well, we would probably have to raise the interest rate and do a lot of other things in order to make money. We make money off the big loans.

The CHAIRMAN. On FNMA, too?

Mr. GUNDERSON. Yes, sir. FNMA is a very great help in carrying the load of making these small loans.

The CHAIRMAN. If it were not for FNMA, you would not have made any money last year, would you?

Mr. GUNDERSON. We would have made a little, but not very much.

The CHAIRMAN. How much did you say you made last year?

Mr. GUNDERSON. RFC made \$14,000,000 before reserves, and FNMA made \$2,900,000.

The CHAIRMAN. In other words, you made about \$2,000,000 outside of FNMA?

Mr. GUNDERSON. Yes. That is, of course—

Senator CAPEHART. You said a moment ago, in answer to Senator Benton's question, that you were able to make this money because you paid no income taxes, and so forth.

Mr. GUNDERSON. That is a major reason. I think a major reason is that we are bolder about making loans, and when they work out—we have made a substantial amount of that profit resulting from the sales of our bond accounts at premiums. When we built the San Francisco-Oakland Bridge and the Triborough Bridge in New York and put through a lot of the tunnels and did a lot of work like that, there was a time when there was no equity market; there was no way to raise that money, and we went in and did it. As soon as the project was completed, those securities were all sold back to private owners at a substantial profit or premium, and those premiums are in this figure.

Senator CAPEHART. I wanted to make this observation. Of course, that is true of any governmental agency that goes into business. My question is, Just how long can the taxpayers and those who are producing in the United States and are paying taxes, just how long can they continue to do so if each and every day we are placing the Government further into business?

Mr. GUNDERSON. Well, the Government has been as far as we are in it for 18 years.

This might broaden the base a little, but I do not think it broadens it too much, because I think we go about as far as we can today in making a loan, and I think this bill might give us a little latitude, but if you still expect loans to be made, you cannot depart substantially from the basis we have always operated on.

Senator CAPEHART. Would you agree with me that the country would be in a more healthy condition, it would be a better situation, if RFC would have made half as many loans as it did and made no profit, meaning that there would have been no demand on the part of industry and the small fellow for loans? Which leads me up to this observation: Should we not rather, in considering what we are considering, consider ways and means of creating a healthy atmosphere in the United States whereby private industry can stand on



its own bottom and furnish its own capital, rather than further pushing the Government into business in America?

Of course, we have offered two solutions to it: One is the exemption on taxes, and the other is the amortization. I think a third good one would be to compel the Government to buy X percentage of its goods from the small-business men of America.

Mr. GUNDERSON. Anything that is done, regardless of who does it or wants it done, that lets business be stronger will reduce the amount of RFC loans.

But there is, to my knowledge, no adequate place in private lending fields for small-term loans on fixed assets today, because it is an uneconomic type of business.

Senator CAPEHART. I think you are correct under existing conditions. If we change those conditions, there might well be a market where money is available for that purpose.

Mr. GUNDERSON. Well, you would have to change an awful lot of conditions, Senator, because, for example, when a bank looks at a business that has lost money for 4 or 5 years, they are almost precluded because of the loan experience from lending them money, and yet it is a fact that if somebody wants to take the trouble to see whatever the bad situation is in there and correct it—and many times it is only a change of personnel or a change in approach—and you do unfreeze part of their savings which is represented in plant and give them another chance, our experience is that they do get by.

Senator CAPEHART. I am not arguing with that. I think there is a need, but we are considering a bill at the moment here which, in my opinion, if we pass it, it would be the beginning of the Federal Government guaranteeing all bank loans in America. Nobody is going to unsell me on that, because that is the way the Government works. The Government never backs up; it goes forward.

Here we have a situation where in the last Congress they permitted you to make loans up to 10 years, and now this bill is asking that you be permitted to make them up to 15 years.

Mr. GUNDERSON. For 11 years we had no limitation at all.

Senator CAPEHART. But, my point is that, if you pass this bill where the Government guarantees 90 percent of all \$25,000 loans, the next step, of course, will be \$50,000, and the next will be \$100,000, and the next step will be all loans, and the end result will be that every borrower in the United States will be charged 1.5 percent premium, and that is what it will be to guarantee the loans.

That, in my opinion, will be the end result of this sort of legislation. I am not going to argue the merits or demerits of it, but I do want the American people to know what will eventually happen to them if the Government goes into this sort of a program.

I have another question here. On page 39 of the bill, section 603, you refer to it on the first page of your statement: Eligible enterprises. Under the bill it gives the Secretary of Commerce the right to set up the classifications.

Do you think that is possible, with any degree of fairness?

Mr. GUNDERSON. Well, I think he could set up the classifications, all right, but I think the chances are it would result—my personal opinion would be it would probably result in about as many classifications as we are now lending.

Senator CAPEHART. It says the relative size and importance of business operating in the industry. I presume one operating in the automobile-manufacturing industry, if they had \$100,000,000, they would be a small business, would they not?

Mr. GUNDERSON. They certainly are. There is no doubt about it.

Senator CAPEHART. And the steel industry, if they had \$100,000,000, it would be a small business. If they are operating in the retail business, I presume \$25,000 and down would be the classification. If they were in the wholesale business, it would be a larger amount.

My point is, Can you ever set that classification up with any degree of fairness?

Mr. GUNDERSON. Well, you can set up classifications. If they were broad enough, it probably would be fair to everybody. If they were not, it would not be, because unless you knew what classifications were set up, I do not know how you can answer that question.

Senator CAPEHART. Suppose you said you were going to set it up on the basis of no one who had assets of more than \$100,000, and the fellow that happens to have \$100,001, he is penalized because he has \$1.

Mr. GUNDERSON. Well, I did not see anything in here that would mean anybody would be foreclosed from getting a loan.

Senator CAPEHART. Regardless of the size?

Mr. GUNDERSON. Regardless of his size. It certainly gives the Secretary of Commerce the authority to set out certain fields. I think the only way it could operate might be to restrict the fields in which we operate. That would be the effect of it, in my opinion.

I also believe that if you have a continuation of Government lending on the basis that we now have, and you have the continuation of the two requirements that you exhaust private credit sources and that you make a loan that would be repaid, that the tendency will be to take care of the people who need help.

Senator CAPEHART. Why should it be that way?

Mr. GUNDERSON. Well, I think when you have an economy that is paying the tax bill that ours is, I think you have to keep all of them healthy, if you can.

Senator CAPEHART. My point is, Why should there be any classification? Wherein is it fair to the taxpayers of America to say to one man because you are a \$50,000 corporation, you get a loan from the Government, but if you have \$55,000, you cannot? Why could it not be that the man with \$55,000 might need it worse than the man with \$50,000?

Mr. GUNDERSON. I do not think that any discriminatory classification is fair, but I do not think you have to assume that any action taken under this would be discriminatory. That is the thing I do not see in here. In and of itself, it would not have to be discriminatory.

Senator CAPEHART. Of course, under Reorganization 24 RFC will be transferred to the Secretary of Commerce.

Mr. GUNDERSON. Yes.

Senator CAPEHART. If this bill becomes a law, then the Secretary of Commerce, of course, will be practically dictating to whom the RFC would make loans; is that a correct statement?

Mr. GUNDERSON. He would have the authority to say where the loan should be made; yes.

Senator CAPEHART. The Secretary of Commerce?

Mr. GUNDERSON. Yes.

The CHAIRMAN. Will you proceed?

Mr. GUNDERSON. The initial capital stock of the Corporation of \$500,000,000 has been reduced to \$100,000,000. Thus, The Corporation has returned to the Treasury \$400,000,000 of its original capital and in addition has realized a very substantial net profit—

The CHAIRMAN. Have you returned your appropriations each year?

Mr. GUNDERSON. Of course, we have never received a dollar of appropriations. Our appropriations do nothing but permit us to spend the money we make to pay our expenses. That is all our appropriations have ever done.

The CHAIRMAN. Well, I just wanted the record to show that the Federal Government never had to put any money up.

What was the appropriation bill for this year? I forget.

Senator CAPEHART. The appropriation bill authorized you to spend your own money?

Mr. GUNDERSON. There is a restriction on our administrative expenses.

Mr. CONSIDINE. \$27,100,000 was our request.

The CHAIRMAN. And it was reduced \$600,000?

Mr. CONSIDINE. That is right, \$600,000 for custodial expenses and \$500,000 for other costs.

The CHAIRMAN. So that would be \$26,000,000?

Mr. CONSIDINE. It would be \$26,000,000.

The CHAIRMAN. Yes. And that \$26,000,000, of course, from what you had last year, comes out of the expenses before you say you make this money?

Mr. GUNDERSON. That is correct.

The CHAIRMAN. All right, sir.

Mr. GUNDERSON. \$308,736,000 has been paid to the Treasury as dividends.

The CHAIRMAN. What interest have you paid on it?

Mr. GUNDERSON. What interest do we pay to the Treasury?

The CHAIRMAN. Yes.

Mr. GUNDERSON.  $1\frac{7}{8}$  percent at the moment.

The CHAIRMAN. Well, does it not vary from 2 to  $2\frac{1}{5}$  percent?

Mr. GUNDERSON. It has been up as high as 2 percent, and it usually goes from  $1\frac{7}{8}$  percent or 2 percent.

The CHAIRMAN. Whatever the rate is you pay, and you pay the interest on these loans and on this capital that the Treasury sets?

Mr. GUNDERSON. Not on the capital, Senator; just the money we borrow.

At present the Corporation operates with a capital structure consisting of \$100,000,000 capital stock held by the Secretary of the Treasury and \$250,000,000 of earned surplus which the Corporation has been permitted to retain following the revision of the RFC Act in 1948.

It is reasonable to assume that with a relaxation of collateral requirements many more applications for financial assistance will be made by business enterprises, regardless of whether increased private lending results from the insurance and investment company programs provided for in titles I and II of the bill. If titles I and II do not

result in any substantial increase in the volume of private lending, the liberalization of RFC's collateral requirements will greatly increase the number of applications for RFC business loans.

This committee will recall that its Report No. 974, Eightieth Congress (to accompany S. 2287), March 10, 1948, contained the following statement:

OPERATIONS SHOULD BE SELF-SUSTAINING

The third principle which should govern the operations of RFC is that its lending activities under economic conditions such as prevail today should be conducted, insofar as is reasonably possible, on a self-sustaining basis after taking into consideration the operating expenses and reasonable reserves for losses.

The present law requires that RFC's loans be "of such sound value or so secured as reasonably to assure retirement or repayment." The committee believes that a fair application of this standard will yield the desired result.

The committee will realize that a relaxation of collateral requirements will require the reservation of a greater portion of the Corporation's earnings as a loss reserve than has heretofore been needed. In addition, administrative expenses resulting from additional applications and from inquiries will certainly increase. Both of these considerations will have an effect on the Corporation's ability to continue on a self-sustaining basis. I mention this because of the related factor of interest rates paid by RFC borrowers, now at 4 percent. Obviously, there is a distinct possibility that this interest rate would have to be reconsidered and probably revised upward if section 301 is enacted.

If further study of the language of the bill, particularly title III and related sections, reveals the need for clarification, we would wish to have the opportunity to submit further comments or suggestions of a clarifying nature.

The CHAIRMAN. We want to thank you for this statement. As I asked you when you first came here—I do not think it was quite clear for the record—is that the statement of the directors of the RFC?

Mr. GUNDERSON. Yes, sir.

The CHAIRMAN. It is not your statement?

Mr. GUNDERSON. In answer to certain questions that were asked I expressed my personal opinion. So far as the statement is concerned it represents the RFC's statement.

The CHAIRMAN. Any questions that you answered were expressing your personal opinion, after studying the bill, to the best of your knowledge?

Mr. GUNDERSON. The statement represents the RFC's views.

The CHAIRMAN. This is a statement from the directors of the RFC. I thank you.

I do not have any questions.

Senator CAPEHART. Could not RFC do everything that is called for under this bill, other than the title here that sets up the National Investment Corporation?

Mr. GUNDERSON. We could not make the 15-year loans.

Senator CAPEHART. If the RFC was made the agency to administer this bill could not they do so on everything other than the National Investment Corporation under title II?

Mr. GUNDERSON. I think so; yes, sir.

The CHAIRMAN. Well, that is just what we do not want to do. We want to put the private banks in business.

Senator CAPEHART. Yes, but some Government agency has to underwrite the insurance plan for the private loan. Do you feel that insuring loans for small businesses under \$25,000 is a good thing?

Mr. GUNDERSON. Well, I have not studied that very much, Senator Capehart. My personal opinion is that with business loans—I would not like to say it could not be done—you need discretion in making them. I think that an insurance plan might well work but a lot would depend on how it was administered, the kind of regulations and the discretion of the people who are experienced with the proposed operation.

We had a program right after the war of blanket participation agreements where we let the banks themselves exercise discretion. The program was quite successful and I suppose in many ways it was not too far removed from the insurance plan.

Senator CAPEHART. Do you feel that the banks on all \$25,000 loans would simply turn them over to the Government for insurance?

Mr. GUNDERSON. I doubt it myself. I do not think they would make too many loans other than they are already making. But I do not understand it and I have never studied the insurance of loans. I do know that the business of making business loans is considerably different than the business of making a loan for X amount on a house or a bushel of corn, or anything like that.

Senator CAPEHART. I was going to say that you have, of course, the insurance on housing loans.

Mr. GUNDERSON. And that is very successful.

Senator CAPEHART. But there, of course, the Government set the regulations, inspected the property and approved it in advance and the Government, of course, has a first mortgage on the property that is set up over a period of X number of years of payments.

The CHAIRMAN. Under title I of the Housing bill they do not do that.

Senator CAPEHART. They have a mortgage on the property.

The CHAIRMAN. The bank has the mortgage.

Senator CAPEHART. That property remains intact, it does not move, it is always there. The security under a business loan fluctuates from hour to hour.

The CHAIRMAN. I am not going to differ with you on that. I just meant that the Government did not do that, it left it to the banks under title I.

Senator CAPEHART. Of course there are certain rules and regulations.

The CHAIRMAN. Any further questions?

Senator CAPEHART. I am thoroughly convinced—and I am not going to argue the merits or demerits—that it is the opening wedge to the eventual guaranteeing of all business loans.

The CHAIRMAN. If there are no further questions we will thank you for your testimony.

(Whereupon, at 11:50 a. m., the hearing was recessed.)



## SMALL BUSINESS ACT OF 1950

TUESDAY, JUNE 27, 1950

UNITED STATES SENATE,  
COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C.*

The committee met, pursuant to recess, at 10 a. m., in room 301, Senate Office Building, Senator Burnet R. Maybank (chairman) presiding.

Present: Senators Maybank and Sparkman.

Also present: Senator Benton.

The CHAIRMAN. I will ask the meeting to come to order.

Mr. Kirby, will you come up, sir?

Senator Tobey will be here in a few minutes. He has some people in his office. Senator Sparkman will also be here, but I thought we had better get along because we have Mr. McCabe following you, Mr. Kirby.

Mr. Kirby, will you proceed in your own way?

### STATEMENT OF VANCE N. KIRBY, TREASURY DEPARTMENT

Mr. KIRBY. Yes. At the outset, I would like to give to you, Mr. Chairman, a short report by the Department signed by the Secretary on this bill.

The CHAIRMAN. To have the record clear, I will ask you to read that into the record.

As I understand, you represent the Treasury Department as a tax expert?

Mr. KIRBY. That is right.

The CHAIRMAN. As I understand, the Secretary of the Treasury wrote the letter you are going to read, and as I understand, that letter speaks not only for the Secretary, but also for the Comptroller of the Currency; am I correct?

Mr. KIRBY. You are correct in that.

The CHAIRMAN. So it will not be necessary to have the Comptroller of the Currency here?

Mr. KIRBY. That is correct.

The CHAIRMAN. Mr. Snyder said that if we needed him, he would come, but he told me over the telephone that the letter would be sufficient to make absolutely clear for the record the position of the Treasury Department and its various branches; is that right?

Mr. KIRBY. That is right. The Secretary would be very glad to come, if the committee desired his appearance.

The CHAIRMAN. Not only his appearance, but his letter represents those connected with the Treasury, the Comptroller, and everyone else?

Mr. KIRBY. That is right.

The CHAIRMAN. All right, then, if you will read that letter, we will be interested in it. I know the substance of it, but I think for the record the letter should be read.

Mr. KIRBY. This letter is dated June 26, 1950:

MY DEAR MR. CHAIRMAN: Further reference is made to the requests of your committee for the views of this Department on S. 2947, S. 2975, S. 3386, and S. 3625, bills to aid small business.

These bills contain various provisions which are similar in their nature or purpose, such as the creation of private corporations to provide credit and equity capital to business enterprises; the insurance of loans made by financial institutions to small businesses; and the broadening of RFC lending authority. S. 3625, however, is more comprehensive than the other bills and has been drafted to implement the recommendations contained in the President's message to the Congress of May 5, 1950.

The Treasury Department suggests that S. 3625 be considered in lieu of the other bills to aid small business which are pending before your committee. The Treasury Department is in favor of the objectives of that bill to provide additional capital for small business where available sources might prove to be inadequate. The Department has no comments or recommendations which it wishes to submit with respect to the provisions of S. 3625 other than the tax provisions. The comments of the Department in connection with the tax provisions will be presented by a representative of the Department in hearings before your committee.

Very truly yours,

JOHN W. SNYDER.

The CHAIRMAN. As I understand that letter, the Treasury Department's interest in small business is as it has been shown here since we started these hearings, and that is the tax situation of small business.

Have you followed the hearings to the extent where Senator Capehart suggested the greatest relief to small business could only be through tax reduction? He suggested up to \$50,000 they might not pay any taxes. He suggested an amortization plan over a period of 5 years. Have you followed that?

Mr. KIRBY. We have followed the hearings, Mr. Chairman.

The CHAIRMAN. Are you going to comment on that?

Mr. KIRBY. Yes.

The CHAIRMAN. You go ahead.

Mr. KIRBY. I will give my prepared statement and then, if there are any questions, I would certainly be glad to take them up.

The CHAIRMAN. How long is the statement?

Mr. KIRBY. It is just about seven pages.

The CHAIRMAN. Would you rather get through before questioning?

Mr. KIRBY. It does not make any difference, Mr. Chairman; however it suits your committee.

The CHAIRMAN. All right. You go ahead.

Mr. KIRBY. I would like to state right at the beginning that the Treasury Department is wholeheartedly in support of the objectives of the small business bill, S. 3625, and urges its enactment. However, inasmuch as the only provisions of the bill which particularly fall within the jurisdiction of our Department are the tax provisions, my statement will be restricted to a discussion of them. The other parts of the bill have been covered fully by the representatives of the agencies which are immediately concerned.

Under the tax provisions found in section 208 of the bill, national investment companies would be granted the tax treatment of regulated investment companies, modified in certain important respects. The



provisions applicable to regulated investment companies, which appear in supplement Q of the Internal Revenue Code, exempt from the corporation tax income which is currently distributed as dividends. Furthermore, the capital gains of a regulated investment company may be passed on to stockholders in the form of capital gains dividends, thus providing capital gains treatment to the stockholders.

The CHAIRMAN. Let me ask you a question there. The Treasury Department has given pretty careful consideration to this bill and there is nowhere in this bill that you or the Treasury Department see any attempt to interfere with private business, is there?

Mr. KIRBY. None that we are aware of.

The CHAIRMAN. You do not read in any section of this bill where we would have anybody believe they are going to get something for nothing; they have to put up collateral; is that the way you understand it?

Mr. KIRBY. That is the way we understand the bill.

The CHAIRMAN. That is the way the Secretary understands it, too?

Mr. KIRBY. That is correct.

The CHAIRMAN. In other words, it is a private enterprise small business bill?

Mr. KIRBY. That is correct.

The CHAIRMAN. And collateral must be put up for any loans?

Mr. KIRBY. As I understand it, that is correct.

The CHAIRMAN. And the Secretary understands it that way, too?

Mr. KIRBY. Yes, sir.

The CHAIRMAN. Some people made the statement here the other day they read in the paper that they were going to borrow money for small business, if this bill passed, without collateral and it would cost the taxpayers a lot of money. It was never the intention of those who drew the bill to have that occur, but I wanted to get the record clear as to what the Treasury Department understands.

Mr. KIRBY. I am not aware of any such intention.

The CHAIRMAN. And the Secretary feels the same way?

Mr. KIRBY. I am sure he does.

The CHAIRMAN. I wanted to ask you that question.

Will you proceed?

Mr. KIRBY. The tax treatment of the regulated company is based upon the theory that the companies are merely conduits for the flow of investment income which is currently taxable to the stockholders. In order to qualify for the special treatment provided under supplement Q, a regulated investment company must receive 90 percent of its gross income from dividends, interest, or capital gains, and must distribute 90 percent of its net income, other than capital gains, to stockholders during the taxable year.

It is further required under supplement Q that the investment portfolio of the company must be diversified both as to the number of separate corporate investments, and as to the size of the investment in any one company.

A regulated investment company is subject to the regular corporate rates on any amount of income which is not distributed during the taxable year. Any net capital gains retained by the company are subject to the usual 25 percent tax.

Under the proposed bill, national investment companies would be eligible for the conduit treatment provided under supplement Q now in our Internal Revenue Code. However, the technical requirements

as to the sources of income and diversification of assets would be liberalized with respect to the national investment companies.

In order to qualify under supplement Q, national investment companies would need to receive only 75 percent of their gross income from dividends, interest, and capital gains, instead of 90 percent required for other regulated investment companies.

The reduction in the percentage of income required to be derived from investment sources is intended to permit greater flexibility of operation. It is expected, particularly during the initial years, that the companies may derive a substantial portion of their income from the furnishing of technical or managerial services to eligible enterprises on a fee basis.

Under the bill, national investment companies may obtain as much as 25 percent of gross income from noninvestment sources.

The bill also provides, with respect to the asset diversification requirement, that the Federal Reserve Board may waive these requirements as to any national investment company if it determines that such action is necessary and appropriate to accomplishment of the purposes of the act. The waiver of such requirements presumably may be made as to any one or all national investment companies, and may be under such conditions and limitations as the board determines.

It may be noted in this connection that section 206 of the bill also contains limitations on the aggregate amount of investment by a national investment company in any single enterprise, and that such limitations may be waived by the board.

The principal changes in supplement Q as applied to the national investment companies appear in section 208 (d) (1) and (2) of the bill.

Under supplement Q, regulated investment companies are generally required to distribute substantially all their income and are fully subject to tax on any portion of income retained, not to exceed 10 percent of the income for the taxable year.

The provisions of supplement Q also operate in such a manner as to deny regulated investment companies the operating loss carry-over and the 85 percent dividends-received credit available to other corporations.

The tax treatment of national investment companies proposed in the bill would enable these companies to be treated as regulated investment companies for the purposes of amounts distributed to stockholders, while at the same time allowing such companies to retain and accumulate a substantial fund of earnings designated as a "national investment company reserve." National investment companies would be granted a tax deduction as to certain additions to the reserve and the dividends received credit with respect to further additions to the reserve.

In general, it is contemplated that the reserve would be available to offset operating losses or capital losses. Any other withdrawals from the reserve would be required to be distributed to the stockholders and would be taxable as a dividend to them or, in the case of liquidation, as a short-term capital gain.

The mechanics of the reserve are set forth in section 208 (d) (2) of the bill. It is there provided that any national investment company which meets the requirements of Supplement Q may, under regulations prescribed by the Commissioner of Internal Revenue with the

approval of the Secretary of the Treasury, establish and maintain a reserve. This reserve must not at any time exceed 50 percent of the invested capital of the company.

It is also provided that the reserve shall not exceed the actual amount of accumulated earnings and profits of the company.

A national investment company electing to establish such a reserve may deposit therein all or any portion of its earnings up to the allowable maximum of the reserve and to the extent of such deposits, is relieved of the requirement of distributing such income to its stockholders.

Deposits in the reserve up to 20 percent of invested capital are allowed as a tax deduction without regard to the source of such income. Further additions to the reserve up to the maximum of 50 percent of the invested capital qualify for the dividends-received credit of 85 percent, provided the company actually has dividend income from domestic corporations equal to the amount of such deposits.

Any deposits in the reserve which do not qualify for the deduction or the dividends-received credit would be subject to tax at the regular corporate rate.

The CHAIRMAN. Have you discussed this matter at all with Mr. Stam of the Joint Committee on Internal Revenue Taxation?

Mr. KIRBY. No, I have not.

The CHAIRMAN. Have you discussed it with anybody in the Finance Committee?

Mr. KIRBY. No, I have not, Mr. Chairman.

Senator SPARKMAN. While you are stopped, may I ask a question?

Mr. KIRBY. Yes, indeed.

Senator SPARKMAN. Are these things you are mentioning now applicable to the investment companies proposed in this bill?

Mr. KIRBY. That is right.

Senator SPARKMAN. And not to corporations generally?

Mr. KIRBY. That is correct. This would be applicable to the national investment companies that would be set up under the provisions of the bill.

Senator SPARKMAN. And they are, in many respects, different from conditions that apply to ordinary corporations?

Mr. KIRBY. That is right. Yes, this reserve is unusual.

Senator SPARKMAN. That is what prompted the question. It seemed to me that is much more liberal than it is with ordinary corporations, is it not?

Mr. KIRBY. That is correct. It is more liberal. It permits these national investment companies to set up reserves up to 50 percent of their total invested capital, which includes all their borrowings as well. The first 20 percent of that would be permitted as a tax deduction. The next 30 percent would be given the dividends received credit to the extent that they receive dividends, and that results in quite a low tax. It amounts to about 5.7 percent tax.

Senator SPARKMAN. This thought occurs to me, and I think this might be as good a place as any for me to state it or ask it. The Select Committee on Small Business of the Senate has had several days of hearings, as you know, Mr. Chairman. I believe that every witness who came before our committee during those days—and Senator Benton will check me on this—made the statement that the greatest single relief that small business needed was in the field of taxation.

So the thought occurs to me: If this is good for these investment companies, why would not some such program be good for small business generally?

Mr. KIRBY. That is quite a difficult question to answer.

Senator SPARKMAN. I realize it is, but I think it is something we need to turn our thinking to quickly and very strongly.

Mr. KIRBY. A lot of thinking has been done along the lines of small business. Studies have been made. The Department has studied the problems very carefully. There are many, many proposals that have been advanced by various sources for the aid of small business, even in the area of tax treatment.

Senator SPARKMAN. I may say, Mr. Chairman, in all fairness, that we have not yet had the Treasury Department before us because they were not ready to come at the time we asked them but, after we have finished with these hearings, we do hope to have representatives of the Treasury Department up to discuss fully this question of tax relief for small business.

The CHAIRMAN. I made a statement last Friday that we hoped, when your hearings are printed—there is no use in duplicating the hearings by having them printed in this record, but we want those two records together. The reason I asked this tax question was that I have been very careful in this committee to make certain if there are any tax questions concerned, we should certainly have the advice of Mr. Stam. We concur in what the Secretary has said, but I am going to ask the clerk to have a statement from Mr. Stam as to how he interprets this, and also to ask him if the joint committee has any ideas as to how this could be further carried on, as you suggest, to have small business covered generally.

So I will ask the clerk to get that statement, and without objection, it will be placed in the record.

(The statement referred to will be found in the files of the committee.)

The CHAIRMAN. Go ahead, sir.

Mr. KIRBY. The maximum amount of the reserve is determined by reference to the invested capital of the company. As defined in the bill, it is stated that invested capital includes the amount of paid-in capital, paid-in surplus, contributions to capital, and any indebtedness of the company other than unpaid interest. The indebtedness may be represented by a bond, debenture, or any other certificate of indebtedness. If the indebtedness is not represented by a bond or debenture, however, it is only included in an amount equal to the average of such indebtedness for the taxable year.

Section 203 of the bill provides that the total amount of obligations of a national investment company outstanding at any one time shall not exceed the amount of capital stock in surplus. Accordingly, if a national investment company issues the maximum amount of obligations, the total of additions to the reserve could equal 100 percent of the paid-in capital.

The CHAIRMAN. Just for the record, what would you consider to be the maximum amount? You have been talking about a maximum but we have not any specific figures. What I want to get are a few figures that might be comparable to small business in this other study.

Mr. KIRBY. For example, if the company starts out with a paid-in capital of \$5,000,000, as I understand it the bill permits the company

also to issue bonds or debentures to the extent of \$5,000,000. That results in an invested capital for the purpose of the bill of \$10,000,000. Then they can create, during the course of their existence, these reserves of earnings up to an amount of \$5,000,000, 50 percent of their invested capital.

The CHAIRMAN. And then the 20 percent applies on that?

Mr. KIRBY. That is right.

The CHAIRMAN. Will you place that in the record, please?

Mr. KIRBY. With respect to the reserve, the first 20 percent of that reserve may consist of tax-exempt income; in other words, income that constitutes a deduction for tax purposes; and then the balance of the 50 percent, the 30 percent, may consist of dividends with respect to which the companies will be given a dividends received credit.

The CHAIRMAN. The Treasury Department believes these terms are liberal enough to attract private capital? I mean, to make it really attractive for private investors?

Mr. KIRBY. We do not pass judgment on that, Mr. Chairman. We are sure that these provisions are liberal and, as indicated, they are more liberal than the ordinary investment or other business corporations.

The CHAIRMAN. You would not have any further suggestions to make, other than what we have?

Mr. KIRBY. No, we do not have, but we want to work with the committee to provide appropriate tax treatment in connection with these national investment companies.

The CHAIRMAN. And also for small business?

Mr. KIRBY. Yes.

The CHAIRMAN. That is the main thing.

Mr. KIRBY. Very definitely, when I speak of the national investment companies, their purpose is only for the servicing of small business and it is to that extent that they are useful.

The bill also provides that national investment companies, unlike other regulated investment companies, shall be entitled to the net operating loss carry-back and carry-forward. At the present time the net operating loss provisions permit a 2-year carry-back and a 2-year carry-forward of losses. The Treasury has recently recommended that these provisions be modified so as to permit a 1-year carry-back and a 5-year carry-forward. If this recommendation is adopted, and it is now in the House bill that is being argued on the floor today, national investment companies—

The CHAIRMAN. You speak of the House bill but, of course, you are talking of the tax bill?

Mr. KIRBY. Yes. It is now in the House tax bill, which is being discussed on the floor of the House today and will be on the Senate side shortly.

Senator BENTON. Did the President recommend changing the 2-year carry-back to 1 year at the same time he recommended changing the 2-year carry-forward to 5 years?

Mr. KIRBY. Yes.

Senator BENTON. This is his recommendation?

Mr. KIRBY. That, I believe, is his recommendation.

The CHAIRMAN. And that is in the House tax bill?

Mr. KIRBY. Yes, sir.

The CHAIRMAN. All right.

Mr. KIRBY. It is very definitely felt that that is a material aid to small and new businesses.

Senator BENTON. Mr. Chairman, I think this is one of the biggest points in the tax bill.

The CHAIRMAN. I agree with Senator Sparkman. As he said, this has been in the special hearings and in the hearings we have had here. The main thing concerning small business is taxation, I believe.

Senator BENTON. This 5-year carry-forward should be enormously helpful to new and small independent businesses.

Mr. KIRBY. That is right. We feel it will be a very material aid and it is recommended for that reason.

The CHAIRMAN. And the Treasury recommends it?

Mr. KIRBY. Yes, it does.

The capital loss carry-over provisions, which allow a 5-year carry-forward of capital losses, are now applicable to all regulated investment companies and would also be available to the national investment companies.

The tax treatment of net operating losses, as well as of net capital loss carry-over, would be closely tied in with the provisions regulating additions to and charges against the reserve. Both the net operating losses and net capital charges would be charged against the reserve in the year in which they occur, whether or not such charge produces a minus amount in the reserve.

Any net operating profit or net capital gain made within that carry-over period of, say, 7 years, would be required to be used to offset the losses previously charged against the reserve. As in the case of other corporations, such offsets within the carry-over period are not subject to tax.

The bill further provides that in the event of reduction or termination of the reserve in connection with the partial or complete liquidation of the company, the stockholders realize short-term gains to the extent of their pro rata share in the reserve. In other words, when the stockholders get the money that comes from the reserves, they are taxed upon it in full. This provision would have the effect of taxing the gain upon distribution of the reserve at the applicable individual rates.

The concluding section of the tax provision subjects national investment companies to all State and local taxes which would apply to State-chartered institutions of a similar nature. This is a standard provision applicable to private commercial companies chartered by the Federal Government.

The tax provisions which have been proposed with respect to national investment companies necessarily involve complications. Integration of these provisions and the existing provisions of the Internal Revenue Code may require further technical adjustment, and the Department offers its assistance to the committee in the clarification and refinement of the provisions.

That is the end of my prepared statement, Mr. Chairman.

The CHAIRMAN. We appreciate it very much, Mr. Kirby.

Any questions, Senator Sparkman?

Senator SPARKMAN. No questions.

The CHAIRMAN. Senator Benton?

Senator BENTON. I would like very much, Mr. Chairman, to take advantage of the presence of a representative of the Treasury to ask

him about the subject brought up by Senator Capehart in previous hearings, on amortization and depreciation.

What is the difference, by the way, between the word "amortization" and the word "depreciation," as used in tax language?

Mr. KIRBY. Well, I do not think they really apply to the same thing. Depreciation is the amount or that part of the investment that is placed in a short-lived asset, a depreciable asset, that is offset or permitted to be offset.

Senator BENTON. Amortization is on the factory and depreciation on the machinery; is that it?

Mr. KIRBY. Amortization is more on a nondepreciable asset; for example, a premium that you may pay for a bond or something like that. Or we had, during the war, an amortization provision for emergency facilities.

Senator BENTON. A sinking fund?

Mr. KIRBY. That is right.

Senator BENTON. Then I am talking about depreciation.

Mr. KIRBY. Yes.

Senator BENTON. I think the two words were used very loosely the other day, and I feel that my questions deal with depreciation.

Senator Capehart says he has had a bill before the Finance Committee for 3 years, permitting businesses to depreciate over a 5-year period, if they wish. I have thought, out of my experience, there are pretty strong arguments for permitting businessmen to depreciate at any rate at which they wish to depreciate. I am sure this is an old subject to the Treasury Department.

Mr. KIRBY. That is correct.

Senator BENTON. I am curious as to the Treasury Department's thinking about it, because there is no doubt that it would be a powerful stimulus to small, independent businesses if they were permitted to depreciate at any rate they wished, or even if they were limited to a 5-year depreciation it would be much more favorable than under the present laws. And it is my tentative opinion that the Treasury would make money over a period of 25 years on this kind of proposal. If you would discuss that for a minute, I am sure I will then have another question.

Mr. KIRBY. Yes. The subject that you raise is what they call accelerated depreciation, larger than the normal amount of depreciation which is provided as a deduction in the Internal Revenue Code. Accordingly, the result is to distort the taxable income of a company. In other words, during the early years it permits a larger deduction against the profits of the company than is really necessary to offset the actual loss of use of the business asset.

Senator BENTON. That is necessary in the judgment of the Treasury Department. I want you to add that. At least, I will add that without asking you to add that. But if you will just proceed to give us more background here.

Mr. KIRBY. We put out a study in 1947. We do know that, when we make this distortion of income, it will be a costly item; it will reduce the taxes.

Senator BENTON. No doubt.

Mr. KIRBY. Otherwise, there would be no relief for the taxpayer. The Department would be glad to discuss this in full with the taxing committee, but in connection with this bill we do not feel—

Senator BENTON. Do you have real studies on this subject, because this word "distortion" is a tough word. I agree that it would distort in some cases; I would not agree that it would necessarily distort in other cases. The problem is not so much whether it distorts.

Mr. KIRBY. I am not at all passing judgment on accelerated depreciation by the use of the term "distortion." Perhaps we should say it affects the income. It certainly reduces it below the amount of income that really is computed in accordance with sound accounting principles.

Senator BENTON. Well, sound accounting principles are established—I challenge the phrase "sound accounting principles," because many accountants think it is sound for a businessman to take his risk of loss as rapidly as possible and to charge off as rapidly as possible expenses where he has no absolute certainty of future asset values or future profits.

In my judgment, if I buy a new piece of machinery for my plant that I may or may not be able to sell again, or may or may not give me a profit, but just on my judgment it is worth the risk, many businessmen would regard it sound accounting practice to charge that particular expense off in full and immediately.

Now, then, in comes the Treasury and says: "No; that is not a sound accounting practice. You must charge it off over 10 years."

Mr. KIRBY. If the life of the asset is 10 years—

Senator BENTON. In the judgment of the Treasury Department.

Mr. KIRBY. We are not the sole judges at all on that. We are only the initial judges. In other words, we administer the law, which requires a reasonable amount to be allowed as a deduction representing the loss of the usefulness of the depreciable asset.

Senator BENTON. How much are the depreciation regulations of the Treasury Department determined by law and how much by Treasury regulations?

Mr. KIRBY. You see, they all based upon the provision in the Internal Revenue Code which permits a reasonable allowance for the depreciation of business assets. That is the basic principle and basic law which the Treasury has to administer.

Senator BENTON. The Treasury, then, is responsible for interpreting the phrase "reasonable depreciation of business assets"?

Mr. KIRBY. The Treasury is responsible for administering that; and, of course, when any taxpayer disagrees with the Commissioner's construction they can go to the courts, and they do. It is argued out before the Tax Court, the circuit court, perhaps even the Supreme Court, and then we get the Court's construction and, of course, follow that.

Senator BENTON. In the meantime, the little, independent businessman spending his time in the courts does not have the time to sell his merchandise and he is busted while all this is going on.

Mr. KIRBY. I am sure that it is not administered in that harsh fashion.

Senator BENTON. If I may, I would like to start from the beginning and I would like, if you could, to have you insert material later in the record that will bear upon the clarification of this point. I think it is a terribly important point for the small, independent business. That is my first statement.



My second one is: I do not think the Treasury has been sufficiently conscious of this in its application.

My third is: I believe that the Treasury policy in this area is often short-sighted to the ultimate cost to the Treasury itself, actually, in taxes collectible.

I would like to have material developed to see whether I am right or wrong on those three points.

But if I could ask two or three questions——

Mr. KIRBY. I would be glad to insert that.

The CHAIRMAN. Without objection, the answers to Senator Benton's questions will be inserted in the record.

(The information referred to had not been received at the time the hearing went to press.)

Senator BENTON. Could I proceed for just a moment more, Mr. Chairman?

The CHAIRMAN. Certainly. Go ahead.

Senator BENTON. Under the code, would you give me what is the phrase with which this starts in the law?

Mr. KIRBY. Let us see what the statute says. This is section 23 (1), Depreciation:

A reasonable allowance for the exhaustion, wear, and tear, including a reasonable allowance for obsolescence of property used in the trade or business or a property held for the production of income.

That is the statute upon which the regulations of the Commissioner are based. It is a statute which the Department must administer.

Senator BENTON. Under that, the Treasury, you would agree, has tremendous leeway in exercising its judgment as to what that phrase means, "a reasonable allowance for exhaustion," et cetera, et cetera. That puts tremendous power in the hands of the Treasury.

Mr. KIRBY. I would not agree with that. I would say it puts a reasonable discretion in the hands of the Department in this connection, but bearing in mind that this clause that I read has been in the statute since the beginning of the Income Tax Act, back to 1913, and has been construed by the courts many, many times. Of course, the Department gets the benefit of the judicial construction of this language, so that I would not say that we have a free hand in using discretion.

Senator BENTON. I agree with you that all of your past discretion back to 1913 has built up a fabulous body of doctrine that it takes several law partners in consultation to understand and interpret for the unwary businessman. I accept that wholly.

But from 1913 to 1950, an enormous body of practices has built up centering around the interpretation of this phrase in the law by the Treasury Department.

Mr. KIRBY. That is right.

Senator BENTON. Secondly, would you agree that if businessmen could depreciate as fast as they wanted to, this would be an enormous incentive to many businessmen to move ahead much more rapidly with the purchase of new machinery, the modernization of their plants, and so forth?

Mr. KIRBY. I would think that it certainly would be a very large incentive. It would permit the people to deduct against their profits, their income, a capital investment.

Senator BENTON. Would you agree, though, that if on the over-all the judgment of the 4,000,000 businessmen thinking individually about their businesses turns out to be correct, that once this deduction has been made there is then no escape for the businessman to pay the taxes subsequently on the income earned out of his business?

Mr. KIRBY. That is correct. He is taking at an earlier time the depreciation deduction, and at a later stage, of course—

Senator BENTON. He must pay.

Mr. KIRBY. The deductions are smaller. It affects, or it brings forward, really, into the earlier years the deduction and pushes back into the later years the heavier taxes, unless the taxpayer in the later years invest more in business assets.

Senator BENTON. But are there not two other factors here? If the businessman's judgment is correct, and this improves his business, because more businessmen move ahead more rapidly with modernization programs, will not that then accrue to the benefit of the Treasury Department in higher taxes against the incomes of these improved businesses?

Mr. KIRBY. Of course, the Treasury gets the benefits of improved business.

Senator BENTON. Secondly, you will concede on the record that the tax rates have been going up for the last 40 years?

Mr. KIRBY. That is correct.

Senator BENTON. If you had had this policy in since 1913, I think it could be demonstrated the Treasury could have collected much more in taxes over the past 40 years because on the record the earlier the businessmen charge it off or were permitted to exercise their judgment and their greed for immediate profit, and the earlier they have made these charge-offs, the higher their taxes would have become—being paid in later years against higher tax rates. Is that not a fair assumption?

Mr. KIRBY. Well, while you can generalize that the rates have been going up, there have been a lot of variations: we have had two wars and heavy rates were in effect during those years.

Senator BENTON. You are not going to generalize on the next 20 years?

Mr. KIRBY. No; I do not think we can.

Senator BENTON. I think, however, from the standpoint of policy making in the Treasury and the Congress, it might be a fair generalization to say that taxes are just as likely to go up in the next 20 years as they are to go down. Would you agree on that?

Mr. KIRBY. Yes. I would think that we must have concern for those future years. You just cannot put them aside and say, "Well, let's give the reductions in the immediate years, the large deductions, and just let the taxpayer worry about the future years."

Senator BENTON. Did you agree with me that taxes are as likely to go up as to go down?

Mr. KIRBY. Yes.

Senator BENTON. If they are as likely to go up, however, you answer that question in line with your judgment on that question, would come the next question: If the tax rates are going to go up, the sooner businessmen charge off these deductions, the better it will be for the Treasury Department?

**Mr. KIRBY.** No, I do not think that that would be true. We do not want to impose taxes on income that is really larger than it should be under a fair accounting system. In other words, if a taxpayer has charged off in earlier years large deductions, or deductions that are really attributable to later years, then when those later years come, it is pretty hard to administer a law which requires that heavy taxes be paid on that enlarged, and perhaps even bloated, income.

I am not presenting to the committee on this point the judgment of the Department, because we do not have conclusion in this area. There are many, many considerations that should be gone into, and most carefully, with the taxing committee of the Congress. I certainly do not want to prejudge or give any indication that we know the answers in this very important area.

**Senator BENTON.** One point I think we have brought out, Mr. Chairman, is: the judgment of the Treasury Department on what is sound accounting practices is at variance with the judgment of many businessmen who would like, in terms of their immediate self-interest, to be much more conservative in their accounting practices than the Treasury permits them to be. That is a very important point.

**Mr. KIRBY.** Mr. Chairman, I do not mean to give any judgment of the Department in these areas. I am just indicating considerations that have to be borne in mind when you go into these problems.

**The CHAIRMAN.** You are not speaking for the Treasury Department?

**Mr. KIRBY.** No, I am not.

**Senator BENTON.** This, to me, Mr. Chairman, is one of the top questions of Government policy applied to the health and welfare of small and independent business. I believe that a full review of Treasury policy in this area, in line with the witness' statement that much has not been studied, much has not been known, is an appropriate goal of the Small Business Committee as well as your subcommittee of the Banking and Currency Committee.

I believe that one reason in Connecticut, my State of Connecticut and through New England, why the plants are not more modern and are suffering in competition with the modern plants that have been built during the war and the western plants is what I choose to call short-sighted policies of the Treasury Department from the standpoint of the national economy as a whole over the next 10 or 20 years on this subject of depreciation. I believe this should not be taken as dogma starting in 1913, which has accumulated over 37 years of Supreme Court decisions, et cetera, et cetera, but in line with the new committee that has been set up by the Congress, the Small Business Committee, and the kind of hearings you are holding here, Mr. Chairman, this should all be reexamined again in the interests of the national economy.

I believe that a reexamination will show—and this is particularly true and particularly appropriate in view of the dangerous world in which we are living—that this is one of the quickest ways to stimulate an improvement in our plant, our national plant; and that over the next 20 years, the Treasury, far from losing money by permitting businessmen to set their own depreciation rates, actually would be more likely to make money and to get rid of the lawyers, the courts, the deci-

sions, the marble palaces full of people, the tremendously involved administrative codes, and so forth. I submit this to the Treasury Department for real study and to come back to Congress with much more data and material.

Senator SPARKMAN. Mr. Chairman, I was just going to suggest at this point, if I may: I can appreciate the position of the witness in not wanting to commit the Department on some of these questions that have been asked that are wholly extraneous to the bill that is before us, but I do believe that it might be quite appropriate to say to him on this occasion that our Select Committee on Small Business, as I stated earlier, does expect to go into the whole tax structure as it relates to small business, and we do wish that you would be giving some thought to it to be ready to answer these questions before the Select Committee on Small Business sometime in the not-too-distant future.

Mr. KIRBY. We would be very glad to do that, and I want to indicate that we have studied these problems. We have not arrived at conclusions, nor do I want to indicate that I am suggesting any conclusions or prejudices on it.

We will be glad to come down when this committee or any congressional committee looks into the tax-depreciation policies. We will be glad to work with such a committee.

The CHAIRMAN. We thank you for your testimony.

Senator BENTON. It might be suitable that you give your recommendations as to whether it would be advisable to inject into this bill a provision on more liberal depreciation rates.

I understood that was what Senator Capehart was bringing up.

The CHAIRMAN. Yes; that is what Senator Capehart said he was bringing up, but the question of this bill is—I do not want anyone to misunderstand my position on this committee, Senator. I hesitate to go into tax matters that belong to the Ways and Means Committee of the House and the Finance Committee of the Senate, in this committee. That is the only thing that worries me.

I am in thorough accord that the study should be made, and Senator Sparkman is going to have some hearings, I understand, on this tax thing, but I trust that the matter of taxation will be left to the Finance Committee and the Ways and Means Committee, under the law. If we start injecting taxes in here, the first thing we know we will have a bill that will not come under this committee.

Senator Capehart says he is going to introduce the amendments, and anybody who wants to vote for them has the right to vote for them. Senator Capehart most certainly has a right to introduce the amendments.

But I am just speaking for myself, that I do not want Senator George to think for one moment I am going to be a party to interfering in the business of the Finance Committee, because he certainly would not interfere with the Banking and Currency Committee in their legislation.

Senator BENTON. Thank you for the advice, Mr. Chairman, I accept it courteously.

The CHAIRMAN. I appreciate the questions you asked. We will give it a lot of study and, of course, Senator Capehart will, too. Senator

Capehart had 5 years, I believe, for an amortization plan and \$50,000 was the exemption. In my judgment, those matters ought to be put on the bill they have in the House now. If somebody wants to amend the tax bill, they ought to have it in the bill they have up there now, and not amend a bill here that is not going to cost the taxpayers any money but is going to try to get private capital investors to help small business. That is just my personal opinion.

Mr. KIRBY. Mr. Chairman, I wonder if I could say also that the House tax bill includes relief for small business with respect to the corporate tax structure?

The CHAIRMAN. Certainly.

Mr. KIRBY. And there is a reduction in the taxes on small companies.

The CHAIRMAN. You covered that in your earlier testimony in the matters that are being debated in the House today.

Senator SPARKMAN. It is really a modification of the notch tax, is it not?

Mr. KIRBY. The notch problem is completely eliminated, and even further reductions were granted, reductions with respect to companies that have income from \$5,000 on up to \$167,000.

Senator BENTON. I like Senator Sparkman's suggestion, Mr. Chairman. I stand corrected on my mixing this up here with this particular bill.

The CHAIRMAN. No, no, no, Senator. You misunderstood me. I just wanted to make the record clear. Senator Capehart is going to introduce those amendments; he said so; and every Senator on this committee who wants to vote for the \$50,000 exemption will have that privilege.

What you brought out was very enlightening.

Senator BENTON. I gather Senator Sparkman thinks it is a suitable subject for the Select Committee on Small Business.

Senator SPARKMAN. I certainly do. Not only suitable, but one that we are determined to go into.

Senator BENTON. I am glad to have the Treasury start on it a little ahead of schedule.

The CHAIRMAN. The next witness is Governor McCabe.

Mr. McCabe, will you come up and proceed in your own way? I see you have a statement here of some 23 pages. Would you want to be interrupted while you are reading it? Do you want to make it a part of the record, or what would be your desire?

Mr. McCABE. I would like to make it a part of the record, if you do not mind. In the time available, I will cover as much of the statement, Senator, as possible.

The CHAIRMAN. Whatever your wishes are, they are the committee's wishes. Without objection, we could put the statement in the record as a statement of the Federal Reserve Board and you may highlight it, or do whatever you wish. We have 45 minutes and, of course, there will be some questions.

Mr. McCABE. Suppose I start off with the statement and if the Senators want to interrupt me, I will be perfectly agreeable to answer the questions.

The CHAIRMAN. All right.

**STATEMENT OF THOMAS B. McCABE, CHAIRMAN, BOARD OF  
GOVERNORS, FEDERAL RESERVE SYSTEM**

Mr. McCABE. On behalf of the Federal Reserve Board I wish to express our appreciation of this opportunity to present to your committee our views regarding pending legislation proposed to aid small business. I am here to testify particularly with respect to those features of the legislation which relate to the Federal Reserve.

At the outset I should like to make clear that the Federal Reserve, as the agent of Congress charged with responsibility for regulating the supply, availability, and cost of money, is keenly aware of the importance of small business to the commercial banking system and to the economy. The commercial banking system is composed mainly of small banks which depend heavily for their livelihood upon loans to, and deposits of, small business concerns. Small businesses, in turn, are dependent upon banks in their communities to finance a large part of their short- and intermediate-term credit requirements. Mutual interdependence of the small business and the commercial bank over a long period of time has resulted in establishment of close working relationships—small-business men know their bankers, and the bankers know the small-business men, their problems, and their aspirations.

Apart from its interest as a banking organization in the problems of small business, the Federal Reserve System, in discharging its responsibilities for contributing to economic stability, is vitally concerned with the prosperity of all business—both small and large. Small business accounts for a substantial proportion of total business employment and sales in the economy; 35 percent of the total volume of business and 45 percent of business employment, according to a report of the Committee for Economic Development. Should small business languish for whatever reason, large business, in fact the economy as a whole, would suffer severely and the problem of maintaining high-level employment and a rising standard of living would be far more difficult.

Through its various activities the Federal Reserve System has acquired from experience an intimate knowledge of the financing problems of small business.

During the latter stages of the great depression, the System participated actively in providing financial assistance to small- and medium-sized businesses under authority of section 13b of the Federal Reserve Act. That section of the law authorizes the Federal Reserve banks to guarantee loans made by financing institutions to industrial and commercial businesses and also, in exceptional circumstances, to make direct loans to such businesses. The law requires that any such loan guaranteed or made directly by a Reserve bank must be for the purpose of providing working capital and must have a maturity of not more than 5 years; loans may be made only to established businesses; and guaranties are limited to no more than 80 percent of the loss on any loan.

The 13b program, as you are aware, never involved any large volume of Federal Reserve credit. For one thing, the System made every effort to have the loan cases handled through normal credit channels. For another, the Reconstruction Finance Corporation's activities in small business financing were continually being broadened and its activities naturally limited those of the Federal Reserve. A

third inhibiting factor was the nature of the statutory limitations on the kinds and maturities of loans which the System could make or guarantee.

During the war period, the System gained extensive experience in business financing, both large and small, by acting as agent for the armed services in guaranteeing 10.5 billion dollars of bank loans to war contractors. Over 90 percent of the number and one-third of the amount of these guaranties were on loans to small- and medium-sized businesses; that is, businesses with total assets of less than \$5,000,000.

The CHAIRMAN. What has become of those businesses, Mr. McCabe?

Mr. McCABE. What has become of those businesses?

The CHAIRMAN. When I ask that I realize that some businesses were built up during the war that have gone out of business and others are going along. I wondered if you had any record of what they were doing? Have they converted to peacetime industry or just what are the facts?

Mr. McCABE. I doubt if we have the complete records on what has happened.

The CHAIRMAN. As Chairman of the Federal Reserve Board what would your judgment be? Have they converted to the production of peacetime goods?

Mr. McCABE. A great majority of them have converted to peacetime goods.

The CHAIRMAN. Probably some of them have been sold or liquidated?

Mr. McCABE. There has been a small percentage.

The CHAIRMAN. Could you furnish for the record the percentage of those that have liquidated and those that have converted, and what they are doing now, because that is a big item, 10.5 billion.

Mr. McCABE. That was the amount of our guaranties.

The CHAIRMAN. How much more was involved than you guaranteed? You guaranteed 10.5 billion.

Mr. McCABE. Yes. You see, these concerns needed credit and the Federal Reserve acted in this capacity at the direction of the Congress.

The CHAIRMAN. Were they mostly small firms?

Mr. McCABE. There were all kinds of firms.

The CHAIRMAN. What would be the proportion of small firms, half and half, two-thirds, one-third, or what?

Mr. McCABE. My statement goes on to say that over 90 percent of the number and one-third of the amount of these guaranties were on loans to small and medium-sized businesses.

The CHAIRMAN. In other words, one-third of the 10.5 billion was loaned to small businesses?

Mr. McCABE. That is, businesses with total assets of less than \$5,000,000.

The CHAIRMAN. You said 90 percent of the number and one-third of the amount; that would be about 4 billion?

Mr. McCABE. That is right.

The CHAIRMAN. I am very much interested in that statement. Frankly, I did not realize you had done that much. I did know of some firms you had guaranteed but when you start talking about guaranteeing 4 billion dollars to small business if there is any further

enlightenment that you can give us on that I would appreciate having it for the record.

Mr. McCABE. We would be very glad to give you any information we have.

The CHAIRMAN. I think it is very interesting.

Mr. McCABE. I would be glad to insert that in the record.

(The following was later submitted for the record:)

The following tables have been taken from a study entitled "A Statistical Study of Regulation V Loans" by Susan S. Burr and Elizabeth B. Sette, to be published by the Board of Governors of the Federal Reserve System.

*Borrowers and loan authorizations under Regulation V by size of borrower*

Size of borrower (total assets, in thousands)	Number of borrowers	Number of authorizations	Amount authorized (in millions)
Under \$50 .....	862	1,504	\$94
\$50 to \$500 .....	2,192	4,146	868
\$500 to \$5,000 .....	1,451	2,752	2,619
\$5,000 and over .....	359	559	7,217
All sizes .....	4,864	8,961	10,798
Percentage distribution			
Under \$50 .....	18	17	1
\$50 to \$500 .....	45	46	8
\$500 to \$5,000 .....	30	31	24
\$5,000 and over .....	7	6	67
All sizes .....	100	100	100

*Credit outstanding to small and very small concerns and additional credit available under Regulation V, selected dates*

[Dollar amounts in millions]

Date	Outstanding loan authorizations		Credit outstanding	Additional credit available	
	Number	Amount		Amount	As percentage of total authorization
1942—Dec. 31 .....	1,333	\$148	\$69	\$79	53
1943—June 30 .....	1,313	206	88	118	57
1944—June 30 .....	978	233	95	138	59
1945—June 30 .....	952	246	72	174	71

NOTE.—The 3,054 small and very small concerns (total assets of less than \$50,000 and \$50,000 to \$500,000, respectively) with loan authorizations under the program included 1,705 with one authorization and 1,349 with more than one authorization.



*Percentage distribution of borrowers and loans under Regulation V by size of authorization and size of borrower<sup>1</sup>*

Size of authorization <sup>1</sup> (in thousands)	All borrowers	Size of borrower (total assets, in thousands)			
		Under \$50	\$50-\$500	\$500-\$5,000	\$5,000 and over
		Number of borrowers			
Under \$25.....	10.5	43.9	5.9	0.1	-----
\$25-\$50.....	8.8	24.1	9.7	.3	0.3
\$50-\$100.....	12.3	17.4	19.4	1.4	-----
\$100-\$250.....	21.1	9.7	35.5	11.0	.6
\$250-\$500.....	15.0	3.6	18.3	20.4	.3
\$500-\$1,000.....	12.5	.8	7.8	29.0	2.2
\$1,000-\$5,000.....	15.4	.5	3.2	35.8	42.6
\$5,000 and over.....	4.6	-----	.1	1.9	54.0
All sizes.....	100.0	100.0	100.0	100.0	100.0
		Amount authorized			
Under \$25.....	0.1	7.5	0.4	(?)	-----
\$25-\$50.....	.2	12.1	1.5	(?)	(?)
\$50-\$100.....	.5	18.1	5.8	0.1	-----
\$100-\$250.....	1.9	20.9	22.8	1.7	(?)
\$250-\$500.....	3.1	18.0	26.1	6.5	(?)
\$500-\$1,000.....	4.9	9.2	20.8	17.7	0.1
\$1,000-\$5,000.....	18.4	14.2	19.5	61.2	6.9
\$5,000 and over.....	71.0	-----	3.3	12.8	93.0
All sizes.....	100.0	100.0	100.0	100.0	100.0

<sup>1</sup> Borrowers with more than one authorization are included once only in the size group of their largest ("maximum") authorization.

<sup>2</sup> Less than .05 percent.

Senator SPARKMAN. Does that include the V loans?

Mr. McCABE. These are the V loans.

I might add that the guarantee program was conducted with no cost to the taxpayers. On the contrary, Treasury receipts from this program totaled \$23,000,000 by the end of 1949.

The CHAIRMAN. This is not going to cost the taxpayers anything, either.

Mr. McCABE. The investment companies, the capital of the investment companies as described in the proposed legislation here would be put up by the Federal Reserve. It would require no appropriation of the Congress. The Federal Reserve would put up that capital.

The CHAIRMAN. You have the capital to put up, have you not?

Mr. McCABE. Yes; it is in surplus.

The CHAIRMAN. In other words, at no cost to the taxpayers. You are not going to tax anybody to give it to you to put it up, is that right?

Mr. McCABE. That is right.

The CHAIRMAN. You have the money, you do not have to go to the Treasury and get it?

Mr. McCABE. That is right.

The CHAIRMAN. In other words, it is not going to cost anything, it is going to be something like what you did during the war to guarantee 4 billion to small industries out of 10.5 billion all together?

Mr. McCABE. The Federal Reserve would put up this capital for the investment companies out of its surplus.

The CHAIRMAN. You are going to take it out of your surplus?

Mr. McCABE. That is right.

The CHAIRMAN. You expect it to be paid back, do you not?

Mr. McCABE. We would hope so.

Senator SPARKMAN. And the investment companies retire that capital, do they not? In other words, yours is an original stock subscription but it is retired as business participates in the loans, is that not true?

Mr. McCABE. Senator Sparkman, the bill provides that the member banks, other banks, and other investors can acquire the Federal Reserve interest. Say a Federal Reserve bank would put up \$5,000,000 of original capital. The hope in this bill is that local investors will acquire the Federal Reserve interest so that those investment companies will be managed by local people.

The CHAIRMAN. That is what we want, a private enterprise.

Mr. McCABE. The primary provision of this bill is to have these investment companies owned ultimately by private interests. The function of the Federal Reserve is to initiate them, get them off the ground, get them started, and give them all the aid possible while they are getting under way.

The CHAIRMAN. And then get out.

Mr. McCABE. There will be certain rules and regulations that will be prescribed by the Federal Reserve System that these investment companies would have to live up to. They will be subject to examination and certain regulations.

Senator SPARKMAN. A certain amount of supervision?

Mr. McCABE. A certain amount of supervision. But the primary thought here is to have them owned and managed by private interests.

The CHAIRMAN. That schedule that you are going to get for us about the 10.5 billion and particularly the 4 billion to small businesses, I would like the record to show that that it will appear on page 130.

Mr. McCABE. I am glad you asked for that, sir.

The CHAIRMAN. I am very interested in seeing it.

Senator BENTON. Is there anything to prevent such companies being organized right now without this bill?

Mr. McCABE. You have up in New England, Senator Benton, in Boston, a very interesting one that was organized up there with local capital. That is operating today. Some existing investment companies I think will apply to Federal Reserve if this legislation is enacted, for the privilege of operating under this act. That is, the law provides that five or more individuals, if they can provide \$5,000,000 of capital, can apply for a license to operate under this proposed law. That, I think, is a very excellent provision.

Senator BENTON. That lets in some that are now operating?

Mr. McCABE. That lets them in if they want to come in, or it allows new investment companies to be organized.

The CHAIRMAN. Are you familiar with the program described in the National Bureau of Economic Research report? They say on page 217, and I presume this is what you and Senator Benton are discussing—if I am wrong correct me:

Finally, special mention should be made of the regional credit pools organized under the sponsorship of the small business credit commission of the American Bankers Association. The plan involves the establishment of a pool of credit to which banks in the region can subscribe. The pool will take all or part of

any loan which the local bank considers itself unable to make either because of the size of the loan or because of some feature, such as the terms to maturity, involving risks that the individual institution prefers not to assume alone. By early 1946, 48 regional bank credit groups had been formed with about \$670,000,000 pledged to aid in financing medium and small business.

I do not know, Senator, if that is the situation in New England that you were referring to, but I presume that it is. Is that correct?

Mr. McCABE. I have a general knowledge of that program, sir. My impression is that it did not get very far.

The CHAIRMAN. Well, it says \$670,000,000. Why did it not get very far?

Mr. McCABE. It is very, very difficult to get local interests to put up the capital, Senator Maybank.

The CHAIRMAN. That is practically what that says there. You lent 10.5 billion. I will guarantee you got your money back, did you not?

Mr. McCABE. Oh, yes. We have an excellent record on that.

The CHAIRMAN. I mean very frankly?

Mr. McCABE. We have an excellent record. But to get local investors to invest in the equity of an investment company—

The CHAIRMAN. If I may interrupt: The local investors have modified their policy in the last several years. When we started in here on the FHA and all these other lending programs the local investors would not advance a cent until we got them guaranteed and then they went rather happily into the FHA loans—the local banks. But at first they would not do it. When I say they would not take them I mean they were not anxious to invest in that type of loan. Am I right in that?

Mr. McCABE. Yes. I think the FHA mortgages have worked out exceptionally well.

The CHAIRMAN. But at first they were a little fearful of them. I do not mean everybody was but there were certainly some people who were.

Mr. McCABE. Yes. I think as to anything new like that the investors are wary of it.

The CHAIRMAN. Go ahead. I am sorry to interrupt you.

Mr. McCABE. Since the Reserve System's inception, its officials and staff members have been called upon from time to time to consult with commercial bankers or businessmen who felt that the financing needs of small business presented a special credit problem. Last fall, when business activity was much below earlier or current levels, the calls for advice and help on the small business problem became particularly numerous and we were visited frequently by representatives of small business groups. At that point, I got in touch with Secretary Sawyer who felt, as I did, that the time had come for the Secretary of Commerce to undertake a conference of interested groups to explore needs and remedies. Numerous conferences and discussions have been held since, both inside and outside of government.

The Federal Reserve's role has been to hear all sides of the problem and to make available without reservation such technical information and judgment as we were capable of supplying. Almost daily, members of our staff who are experienced in this field, were asked to consult with individuals and groups both inside and outside the government who sought our advice on various proposals.

Need for special financing facilities: The legislation before you will be strongly opposed by those who believe that small business already obtains as much credit and capital as it can efficiently use. These opponents will say that—

The CHAIRMAN. That is a pretty strong statement but I judge that is correct. There are a lot of people who think we should not give any additional aid to small business but that statement you make leads me to ask you this question:

Is the Federal Reserve Board unanimous, divided, three one way or some another way with respect to this proposed legislation? Does everybody on the Board believe that this bill and your testimony are correct, or can you speak for the Board?

Mr. McCABE. This statement, Senator Maybank, has been approved by a majority of our Board.

The CHAIRMAN. How much of a majority approved it? I am trying to find out.

Mr. McCABE. That is perfectly all right.

Senator BENTON. I think it is a pretty good question.

The CHAIRMAN. It is not a minority report, is it?

Mr. McCABE. There is no minority report unless you want to ask for a minority report.

Senator SPARKMAN. How many members are there now?

Mr. McCABE. Six.

Senator SPARKMAN. Only six members on the Board at the present time?

Mr. McCABE. Yes. The law prescribes seven; we have one vacancy. But this statement has been approved by a majority.

The CHAIRMAN. All right, sir.

Senator BENTON. That gives you two-thirds of the Board, anyway.

Mr. McCABE. These opponents will say that:

(1) The problems which confront most small business concerns are primarily managerial and competitive, not financial;

(2) The commercial banking system is meeting all of the legitimate requirements of small business for short- and intermediate-term credit; and—

The CHAIRMAN. Are there not local banks who might say that is approving loans or approving parts of loans that cannot find their way into the RFC?

Mr. McCABE. Oh, yes. As you know, local bankers from your State are very active in the field of making loans to small business.

The CHAIRMAN. Certainly, but they go to RFC a lot of times, do they not?

Mr. McCABE. They participate with RFC, they go to RFC to take care of certain customers. They take their customers to various credit agencies, depending on the type of credit.

(3) Such financial difficulties as small business encounters could be overcome more effectively by revision of present income, estate, and inheritance taxes than by the provision of additional financial institutions or facilities.

Each of these points merits careful examination.

Managerial problems: Concerning the consideration that most small business financing problems are of managerial character, one does not have to look very far for supporting evidence. Various

studies of individual small business enterprises which have failed or have gotten into serious financial difficulty reveal that the majority of such situations arose because of inexperience, or inadequacy in one or more of the wide range of managerial skills required for successful operations.

It is evident that a large number of small-business men have not had sufficient training for the increasingly complex task of managing an expanding business. A businessman, to be successful today, requires a broad training in the fundamentals of business management. He must be familiar with the theory and practice of marketing, accounting for purposes of management and financial control, personnel management, production engineering, credit practices, and law and government regulations. He must be able to solve problems, in many cases without the aid of specialized professional assistance, in all or these fields. Frequently, the small-business man is a one-talent man—an excellent salesman, an inventive genius, or a production specialist. Often he has a limited knowledge of the other aspects of his business and is unacquainted with, does not fully appreciate the need for, or cannot afford specialized services or aids. This in large measure accounts for the high mortality rate of small businesses. On the other hand, we are all familiar with conspicuous examples of ingenious businessmen who, in spite of all handicaps, have developed their small concerns into large enterprises in a comparatively short time.

The acknowledged existence of management problems among our millions of small-business concerns does not disprove their need for special and additional financing facilities. It does, however, emphasize that, in addition to the provision of financial facilities, greater efforts should be made to remedy the deficiencies of small business management and to provide needed aids and specialized management counsel. This has been recognized in the legislation which is before you.

Several financing institutions have been organized within the past 6 years, such as the Industrial Development Bank of Canada, the Industrial and Commercial Finance Corporation of England, and the American Research & Development Corp. of Boston, to provide predominantly small business concerns with equity capital and long-term credit. From experience, each one has found that the financing need of the enterprises with which it has dealt is closely associated with the need for managerial and technical assistance. In other words, one without the other does not, in the majority of instances, constitute an adequate solution of the financing problem of the concerns which come to the attention of these institutions.

Commercial bank lending: The commercial banking system, by and large, has been doing an outstanding job of meeting the short- and intermediate-term credit needs of small business. No one who is acquainted with the facts would deny this. The National Bureau of Economic Research, a private, nonprofit research organization, undertook during the late thirties an exhaustive study of business financing practices and the major sources of business funds. The study was financed in part by a grant of funds from the Association of Reserve City Bankers. I should like to quote one of the major findings of that study, *Business Finance and Banking*, by N. H. Jacoby and R. J. Saulnier, 1947.

Senator SPARKMAN. Mr. McCabe, that is the same book to which the chairman referred, is it not?

Mr. McCABE. The same thing.

\* \* \* the "typical" short-term borrower [from commercial banks] around 1940 could be described as a small- or medium-sized manufacturing or trading concern, of somewhat less than average profitability. Of the total amount of bank credit used by business around 1940, some 70-80 percent is estimated to have been used by companies with assets of less than \$5,000,000.

Commenting on changes in bank lending practices over the period preceding World War II, the National Bureau's report goes on to say:

Banks showed increasing responsiveness to the credit needs of small- and medium-sized businesses, which provided the bulk of their demand for credit at all times. Because enterprises of these sizes fared badly during the thirties, the extension of credit to them called increasingly for methods designed to provide greater security for the lending agency and to minimize risks of default and loss. The adjustments which commercial banks made to meet these credit needs more effectively were marked by a willingness to write loans on terms more attractive to such borrowers (for example, term loans with installment amortization and revolving credits supplying a reasonable guaranty of working capital facilities over periods longer than customary), and by the use of a wider range of security devices (such as the assignment of receivables, liens on income-producing equipment, the trust receipt, and the field warehouse receipts).

The findings of a comprehensive survey of commercial and industrial loans to business, outstanding at Federal Reserve member banks on November 20, 1946, are also of special interest. This survey revealed that 76 percent of the number, and 22 percent of the dollar volume, of all business loans of member banks were to small business. Small business was defined on the basis of total assets as follows: Manufacturing and mining concerns, total assets of less than \$750,000; wholesale trade, less than \$250,000; retail trade, utilities and transportation, service, construction, less than \$50,000.

This survey further revealed that approximately one-fifth of these small-business loans were what bankers call term loans—loans repayable on an installment basis with maturities at time of making of more than 1 year. Large, as well as small, banks were found to be actively engaged in lending money to small business on a term as well as a commercial credit basis.

In view of the greater risks involved in lending money to small business and the relatively higher costs of analyzing credit applications and servicing loans of small amount, the findings of the survey would indicate that the banking system has been active in cultivating small business customers.

These findings relate to a time now nearly 3½ years ago when large companies were borrowing heavily for reconversion needs. Since that time many of the larger loans have been paid off from retained earnings or have been refinanced, in some cases with new credits, through other financial sources such as insurance companies or the capital markets.

In the past few years, an increasing number of banks have set up special small-business loan departments, and recently several of our very large city banks have instituted new programs to expand their specialized services to small business. I have no doubt that a survey today of bank lending to business would show that the commercial

banks are now doing a more effective job of providing credit to small business than was revealed by the system's 1946 survey.

While we commend the commercial banking system for its financing of the short- and intermediate-term credit requirements of small- and medium-sized business, we must recognize the fact that while banks make a great many loans to small business, they are not able to accommodate all small-business needs. There are many financial needs of businesses, both large and small, that are not bankable, namely, equity capital and long-term credit needs. Commercial banks have a primary responsibility to their depositors for maintaining loan and investment portfolios in a sound condition. They cannot undertake business financing which involves undue elements of risk, undue investigational or administrative expense, or the freezing of their funds for relatively long periods of time. In the case of larger businesses, financial requirements which are not bankable may be met from other sources, such as insurance companies and the capital markets; in the case of small business, nonbank sources of funds are less accessible.

Taxation: There is no denying the fact that the problem of small-business financing has been complicated by the structure and rates of Federal and State taxes. As I said last August in a statement on the equity capital situation, prepared at the request of a subcommittee of this committee, there never seems to be a convenient time for a fundamental review of the tax structure.

The CHAIRMAN. That is a serious situation now. I am glad to hear you say that there is a need for a study of the tax situation with respect to small business in general, even when we are going into deficit financing. But the strongest part of that statement, to my way of thinking, is that taxation alone cannot remedy the situation; you have to go forward. You have to have some legislation passed of a positive nature. You just cannot cure it all, as some people think, by taxes; is that right?

Mr. McCABE. No, sir; I do not think you can do it all by taxes.

Senator SPARKMAN. But at the same time we do not want to take any emphasis from the independence of tax relief, do we?

Mr. McCABE. That is right, sir.

Senator SPARKMAN. And I certainly like your statement there, which I think all of us have found to be true throughout the years, that there never seems to be a convenient time to review and revise our outmoded tax structure.

Mr. McCABE. That is right, sir.

Senator SPARKMAN. I think one of the most forward steps we can take in giving relief to small business is to take the time and to make it convenient to revise our tax structure, which in many respects has become quite obsolescent.

Mr. McCABE. I could not emphasize too strongly my feelings of concurrence in the point of view you have expressed, Senator.

Senator SPARKMAN. Full concurrence.

Mr. McCABE. Full concurrence.

Senator SPARKMAN. I just wanted to be sure it was full concurrence; no minority report.

Mr. McCABE. I feel that time should be taken out by the appropriate committees of the Congress to conduct a fundamental study of our tax structure.

The CHAIRMAN. We are all in agreement that there should be a fundamental study but what do you think about the tax bill? You heard the Treasury Department's witness say here this morning that it would at least be of some assistance to small business. What is your judgment?

Mr. McCABE. Senator Maybank, I have not made a careful study of the tax bill.

The CHAIRMAN. Has the Board given any study to it?

Mr. McCABE. Not as yet.

The CHAIRMAN. Do they intend to?

Mr. McCABE. Only as we are generally interested in the subject. We do not know what the tax bill will be. It was only recently reported out of the Ways and Means Committee of the House and the House has yet to act upon that, and then the Finance Committee of the Senate has to act upon it.

Senator BENTON. I am sure Mr. McCabe would agree, Mr. Chairman, that a 5-year loss carry-forward provision instead of the present 2 years is an encouragement to new enterprise and to capital.

Mr. McCABE. I remember in the Committee for Economic Development—

Senator BENTON. That was one of the recommendations.

Mr. McCABE. That was one of the recommendations. Since we were both actively engaged in that I think we could reasonably subscribe to the recommendations.

Senator BENTON. Did you follow my discussion on depreciation?

Mr. McCABE. I followed it.

Senator BENTON. Do you not think there is a great opportunity to use that, just as an illustration, for the kind of things that need review and restudy as against this 37-year background?

Mr. McCABE. I heartily agree that it needs study. In fact, I think all forms of our tax structure should be studied.

I will say this in fairness to the Treasury: I recall that in 1948 they came forth with a great many constructive suggestions for improving the tax structure. At that time I think it was one of the most convenient times we have ever had to have a complete overhaul of the tax structure. In looking back if we had grasped that opportunity to carry forward the kind of study I think we should have made it would have been extremely helpful.

The problem is a little more difficult today with deficit financing. Yet I agree with Senator Sparkman that I think the study should be initiated and carried forward vigorously because conditions may be different in the next year or year and a half.

Senator SPARKMAN. You heard of the fellow who was wounded and explaining how he was wounded; he said he was zigging when he should have been zagging. We were reducing when we should have been revising; were we not?

Mr. McCABE. That is right.

Senator BENTON. If I may make one other comment, Mr. Chairman, I think what Mr. McCabe is after is the recognition of and agreement on goals we are going to work toward in the provisions on taxes. To take the depreciation discussion again, if we knew the goal we wanted in 1955 or 1960 and could lay out a program to get there; I am not suggesting that necessarily against a 37-year background we sweep everything into the wastebasket and start all over



again, but if we know what our policy should be we then could do a better job of laying out a program for getting there at some future date.

Mr. McCABE. That is right.

In 1948, when we had a substantial surplus, Congress elected to reduce taxes without revamping the tax structure. Now, faced with deficit financing Congress naturally does not want to do anything that will cause even a temporary loss of Treasury revenue. Therefore, a fundamental study that would lead to a reform of the tax system tends to be neglected and postponed.

While some of the difficulties which small business concerns face in attempting to obtain equity capital would be alleviated in part by a basic revision of the present tax structure, I would not want to leave the impression that tax revision alone would eliminate the occasion for the measures that are now before this committee.

Affirmative view of small-business financing needs: Those who feel that there is a real need for some additional facilities or institutions to provide more effectively for the financing needs of small- and medium-sized business are usually the first to admit that they do not have satisfactory statistical proof of the extent of this need. To obtain such proof would require a specific financial analysis of small- and medium-sized business concerns throughout the country.

However, we do have such qualitative evidence as the policy statement on small business of the Committee for Economic Development (1947); the report of the Tulsa Chamber of Commerce (1948), on the number and functioning of the so-called industrial foundations to help small business, and the testimony presented to the subcommittee of the Joint Committee on the Economic Report (1949), pointing to the existence of unsolved financing problems in the small-business area. This evidence indicates that small- and medium-sized business concerns encounter serious difficulties in obtaining outside equity capital and long-term credit needed for expanding productive facilities, broadening the market for their products and services, and launching new projects. The evidence also suggests that very small concerns sometimes meet with difficulties in financing their short-term working-capital requirements.

While the financing need of small business is often referred to broadly as a need for easier availability of bank credit, I am inclined to think that it is primarily a need for equity capital and long-term credit, either singly or in some combination. In many of the cases that have come to the System's attention where small-business concerns have complained of credit shortages, close inspection of these businesses has revealed that where there was an actual financial need it usually was for additional equity capital.

The small-business financing problem is, however, too complex to be characterized simply as one of insufficient equity capital or long-term credit. There are many small-business concerns whose requirements for short-term credit are so small that the commercial banker cannot afford the expense of processing and servicing them in the same manner as larger business loans. Such small-business loans, if granted at all, may often be handled in the personal-loan department, in which case the small-business man frequently does not obtain needed financial counsel and advice which would accompany a more complete analysis

of his business. During the past two decades commercial banks have introduced a number of innovations in lending techniques, including the installment loan for the purchase of equipment and the loan secured by accounts receivable or by inventory held under field warehouse receipts. The response of business concerns to these innovations suggests that efforts by banks themselves to broaden their lending activities can go a long way toward widening the circle of bank-eligible credit risks.

Within the past year, several large banks have launched special programs which supplement their regular business lending activities and are designed for small business. The response to these programs, as evidenced by inquiries, loan applications, and loans granted by the banks, indicates an unsatisfied demand for credit on the part of small business which, while it may not be large in terms of total dollar volume, is nonetheless real. While the loan terms under these special programs have varied from one bank to another, they generally include (1) maturities up to 24 months on miscellaneous loans, and up to 5 years on loans for equipment and other longer-term needs; (2) repayment of principal and interest in regular installments; and (3) flexibility as to security depending on the circumstances of the particular case. The loans have been granted for a variety of purposes, including financing of working-capital requirements, payment of taxes and trade indebtedness, purchase of machinery and equipment, construction of buildings, and acquisition of partnership interests. The number of different types of business represented by borrowers is surprisingly large—one bank sent me a listing which showed loans outstanding to small businesses in 38 different industrial and trade groups, ranging from advertising, drugs, and furniture to radio supplies, stove manufacturing, and wholesale plumbing. Among the borrowers were candy jobbers, hardware stores, jewelers, used-car dealers, electrical contractors, truckers, surgical-supply dealers, and ice manufacturers, to mention just a few among many.

Inquiries elicited by these programs revealed that in a number of cases those engaged in small business were unfamiliar with the various services that commercial banks can offer, or with the different types of credit available to meet business needs. In some instances, the banks found that small businesses were seeking managerial advice as much as they were additional funds, while in others it was determined that bank credit was not adaptable to the particular situation. At the same time banks were able to place funds at the disposal of many concerns which had previously been unable to obtain financing.

Appraisal of conflicting view: It is difficult to give a satisfactory answer to the question: "How great is the need of small- and medium-sized business for special and additional financing facilities?" I do not subscribe to extremists' views on either side of the question. Many of the so-called statistical facts cited in support of one viewpoint or another are merely opinions. Despite opinions that all legitimate needs for bank credit are adequately served, banks that have recently undertaken to explore the field have discovered an eligible group of borrowers. At this stage, however, there is no way of saying how big that group is.

I would sum up the situation this way:

1. There are pockets in which, for one reason or another, existing financing facilities do not fully meet the needs of small business.

2. Short- and medium-term financing generally presents no great problem, except perhaps in some localities and for very small, and often new, concerns. Commercial banks generally have demonstrated their willingness to provide such credit for the latter group. However, many banks, particularly the smaller banks, have not developed the necessary facilities to assure adequate coverage.

3. Easy availability of short- or medium-term credit may encourage businessmen to rely on it too heavily, even using it to finance long-term needs. Should profits decline or credit conditions become tighter, they may then find themselves in serious financial difficulties. What these small businesses really need is financing that will not be too burdensome when the going gets temporarily rough—in other words, equity capital and long-term credit. Moreover, they often need more equity capital in order to qualify for short- and intermediate-term loans from banks.

4. Small-business concerns do not have access to equity and long-term borrowed capital in the way that large companies do. For one thing, the costs of preparing and marketing a small equity or long-term debt issue are prohibitive. For another, there is frequently neither a new issue market nor a secondary market for the equity or long-term debt instruments of small businesses, either in the community where they are known or on the outside.

5. Neither stock nor bond financing in the forms generally available is what the small-business man is looking for. The sale of bonds and preferred stock is generally impractical, except to relatives and close friends. Frequently, the small-business man does not want to sell common stock. The sale of common stock to outsiders, unless to institutions especially authorized to participate on a limited basis, means that the small-business man will have to share the control of his business with others, or perhaps relinquish control. Most small-business men value their independence highly—that is one of the primary reasons why they go into business for themselves. Debt may prove to be a financial strait-jacket in times of economic adversity.

6. The traditional suppliers of equity and long-term credit funds to small business—the “friend of the family” or the local financier—are becoming less and less important in the local financial picture. The growing difficulty of finding a partner, silent or otherwise, is due in part to tax considerations. Also, it is due in part to a change in investment preferences of individuals. There have been indications in recent years of a trend away from equity investment to life insurance, tax-exempt securities, and other highly liquid assets.

7. There are very few institutions in existence equipped to supply small business with both long-term credit and equity capital. There are, undoubtedly, many cases in which some combination of equity capital and long-term credit would prove more suitable than either one by itself. To meet such needs, financing must be tailored to the requirements of each individual business, and not offered in exactly the same form on a take-it or leave-it basis to all comers.

If this summary poses the problem fairly, as I think it does, the question which Congress will want to weigh is what kind of solution will prove most constructive. I am sure that Congress will want the private banking system to continue to provide short- and intermediate-term credit to commercial and industrial borrowers.

The CHAIRMAN. I want to say that the Congress, and certainly this committee, wants to see that continued.

Mr. McCABE. Yes, sir.

The CHAIRMAN. Pardon me for interrupting, but I wanted to state that for the record.

Mr. McCABE. The main question before you is what kind of supplementary facilities are needed.

Facilitating the flow of equity capital into small-business channels is undoubtedly the most difficult problem. In seeking a sound and workable solution to this problem, the Congress will want to explore all possibilities, for it is important to the maintenance of our system of competitive free enterprise that small business make its maximum contribution to sustained high levels of production and employment. There is a great deal to be said in favor of testing experimentally the feasibility of any proposed solution that appears to be sound.

As a believer in a private free-enterprise economy, I feel very strongly that any new institution especially established for the purpose of making equity capital and long-term credit more readily available to small business should eventually be privately owned. Such a new institution, however, would have to be experimental because its operations would involve a substantial element of risk. Under these circumstances, I think it very doubtful that capital in sufficient amounts for an effective trial would be subscribed initially by usual private sources. Therefore, I have concluded that the most practicable solution is to have the initial capital of the investment companies advanced as outlined in the bills before you. The experience of similar institutions has made it abundantly clear that substantial capital is necessary if the newly formed investment companies are to avoid deficits during their first years of operation.

The CHAIRMAN. You say the experience of similar institutions. Could you mention any for the record?

Mr. McCABE. Yes. In another part of the statement, Senator Maybank, I touched on some of these.

The CHAIRMAN. All right. Excuse me.

Mr. McCABE. There are two reasons why institutions newly established to provide equity capital and long-term credit to small business may incur operating deficits. In the first place, maintenance of an adequate technical and administrative staff to review applications, grant, and service equity capital or long-term loans, and to provide customers with such managerial and technical advice and assistance as they may require, will mean substantial payroll and overhead expense.

In the second place, it will take time for a newly established institution of the type envisioned to invest any sizable proportion of its resources in small private businesses. Therefore, if deficits are to be avoided, the initial capital should be large enough to permit coverage of operating expenses through income from temporary investment in Government securities.

I think it is essential that definite provision be made for transfer of the ownership of the new institutions to private hands as quickly as possible. This is important because the new type of institution, if it is to become a permanent part of our private economy, should compete for its funds in the market place. The judgment of the market place may

not always be acceptable to the individual business concern, but it is much sounder than the use of public funds for risk financing of private enterprise. Continued public financing of private concerns in competition with other private concerns is unsound in principle and inconsistent with the precepts of a free-enterprise economy.

The provisions of S. 3625 and S. 2975 stipulate that the proposed new investment companies may be organized by the Federal Reserve banks, who in turn may also provide part or all of the initial capital when necessary. With the Federal Reserve System providing the initial capital, sufficient operating funds would be assured to launch these institutions and to determine whether they could operate profitably.

We heartily approve the provisions in these bills which stipulate that commercial banks and other private institutions and individuals may at any time purchase stock of these investment institutions from the Federal Reserve banks. We see no reason why, if these institutions prove their profitability, ownership will not pass to private hands. Given time to develop a useful pattern of operations and to grow, there are some grounds for believing that this new type of institution may play an important supplementary role in our private financial organization.

From the beginning, we have thought that the approach through these new institutions should be experimental. No one can predict with confidence in what financial areas they will prove successful. We would favor starting off with enough of them to gain experience and to test their potentiality. The sound approach is to feel one's way and to learn how to meet the over-all problem most effectively.

In view of the difficult operating problems that the proposed new institutions will be up against, it is desirable that their managements be given ample latitude to meet effectively and flexibly the varied financing needs of small business. They should have authority to purchase preferred or common stock in small business, to extend long-term credit on such terms and conditions as individual circumstances may warrant, including participation with banks, or to undertake package financing in which both equity and long-term credit are combined. They should also have authority to supply technical assistance on a reasonable fee basis where lack of technical skill in some phase of an applicant's operations seems to be critically related to his financing problems. In other words, the proposed institutions must be in a position to tailor the assistance which they supply in accordance with the type of problem which is presented by the individual small business approaching them for help.

From the advice which various bankers have given us, an important part of the business of the proposed investment institutions would represent package financing. Such financing avoids the pledge of all of a borrower's assets as security for a loan, thus leaving him in a position to obtain short-term financing from commercial banks if necessary. One banker told me that he knew of a number of small-business financing cases which could be made bankable if some additional equity or equity and long-term debt could be provided.

The CHAIRMAN. In your judgment, Mr. McCabe, and in the judgment of the Federal Reserve Board, in connection with that statement, and insofar as these bills apply to the Federal Reserve Board, is it your opinion that you could carry out the law without much trouble and could get the law working effectively within a reasonable time?

Mr. McCABE. I believe so, sir. I think we have a background of experience.

The CHAIRMAN. Because you say the banker says now if he could just get some equity. He knows probably of a lot of good business firms that could be financed, who could probably make a go of it and pay it back to the investment company or whatever it might be. But you think the Federal Reserve Board is prepared to carry out the law, if it should be passed? You do not need any additional legislation? That your house is so in order—of course, it has always been in perfect order—as to carry out this law within a reasonable time?

Mr. McCABE. I believe we are equipped, sir, to carry this out, to carry out the law as Congress intended, and that we could get into action within a reasonable period of time.

The CHAIRMAN. Thank you.

Mr. McCABE. He indicated that his bank, and he thought other banks, would want to cooperate closely with the new investment institutions in working out constructive financing programs for promising small enterprises.

The CHAIRMAN. Does he favor this bill, this banker, or have you discussed it with him?

Mr. McCABE. I talked to him on the phone yesterday, sir. I sent him a draft of this statement. He told me that he subscribed to my conclusions in this statement, and said that he wished the banking fraternity as a whole would take the same viewpoint.

The CHAIRMAN. Thank you.

Mr. McCABE. Finally, there is the problem of adequate earnings for the new type of investment institution in view of the costs and risks of financing small business. The riskiness of the business in which the proposed institutions would engage cannot be too strongly emphasized. If the institutions are to perform a useful public service, they must be prepared to incur losses. The interest rate on loans may be prohibitive if it is set high enough to reimburse costs of investigating an application, servicing a small long-term loan, providing such managerial or technical assistance as may be required, and assuming the attendant risks.

The CHAIRMAN. You have made quite a study of the 90 percent section of the bill, have you not? The law goes up to a 90-percent guaranty. The Board has made quite a study of that section?

Mr. McCABE. Oh, yes.

The CHAIRMAN. It has been stated here by some who are opposed to it—well, I will not say they are opposed to it—that if we begin guaranteeing these loans, the Government will be guaranteeing all loans. What is your opinion on it?

Mr. McCABE. If you do not mind, sir, at the conclusion of this statement, the last two pages, I have covered the answer to your question.

The CHAIRMAN. I am sorry I interrupted.

Senator SPARKMAN. At this point, may I ask this question: Just prior to this you said you would favor starting it on experimental basis. Does that mean that instead of setting up all of the banks that are contemplated under the legislation—36 is the number is it not?

Mr. McCABE. That is right.

Senator SPARKMAN. You would set up two or three as test cases?

Mr. McCABE. First, we would make a study of all areas. We would consult with the Federal Reserve Banks and the branches. Then we

would determine the area (1) where the need was great; (2) a very important point, Senator Sparkman, would be to determine where we could corral the best management to start this institution, because we have a strong feeling that if we set one up, if possible, it must succeed. That would mean you would have to select that bank that would have the greatest sympathetic interest in this program and would want to make that institution succeed.

Senator SPARKMAN. Would it be your thought you would just set up one as a kind of pilot plant, or would you set up two or three?

Mr. McCABE. I think you would determine that after you made your study, whether you would want to start with one, two, or three. I could subscribe to starting two or three, if we felt that the areas to be served warranted the banks, and if we felt sure that we had the proper organization to start the bank in that area.

Senator SPARKMAN. How long a testing period do you contemplate would be required?

Mr. McCABE. I do not think you can determine that today.

Senator SPARKMAN. You would just have to be regulated by the experience gained?

Mr. McCABE. That is right. Then, another thing, Senator: You would be regulated to a considerable extent by the state of the economy. That is, in a period like this you would want to get ready for perhaps a downturn in the economy when these banks might be a godsend. This would be a period of preparation, getting ready. That is, I do not believe the necessity for these banks is as great today as it might be at another period.

Senator SPARKMAN. Your idea would be, then, assuming that your pilot plant banks worked out all right, or your experimental banks worked out all right, then you would contemplate a gradual development of the whole system until perhaps eventually we would have the whole 36?

Mr. McCABE. That is right, and you might have more, if the investment companies that Senator Benton spoke of should come in and ask for a license. Under one of these laws, the investment companies could be additions to the 36.

Senator SPARKMAN. I just wanted to bring that point in at this time. Thank you very much.

Mr. McCABE. Those are the private investment companies that apply to the Federal Reserve.

Participation through equity financing in the gains of successful ventures will be an essential to offset the high costs of operation as well as losses.

Various critics of the proposed legislation have expressed apprehension that the suggested new type of investment institution would constitute a competitive threat, on the one hand, to the existing commercial banking system and, on the other, to our existing investment banking facilities. I do not share this apprehension.

The new type institution would have to supplement its capital funds by borrowing from banks or in the capital market at market rates of interest. On the basis of this feature alone, it could not compete in its charges with rates of interest which banks, using depositors' funds, can charge their customers. In addition, both the credit appraisal and risk costs of an institution specializing in long-term capital and

credit would run much higher on the average than in the case of commercial banks which make shorter term and better secured loans. The success of this new type institution would depend largely on its effectiveness in working through commercial banks and in supplementing the facilities which they are able to offer small business customers.

I should like to stress particularly the point just made that the success of the new type investment institution will depend largely on its effectiveness in working through commercial banks. The local bank is in a unique position to discover and evaluate investment opportunities for such institutions, even if the bank itself is not in a position alone to extend direct long-term aid to the business. Moreover, the local banker is in a strategic position to handle the servicing and supervision of longer-term investments of the new institution, if such assistance is deemed helpful. The credit analysis and administration which the local banker is in a position to provide cannot be duplicated elsewhere under existing financial mechanisms.

As for competition with established investment banking facilities, these facilities are not now adapted to meet the equity and long-term credit needs of small business. This fact, which is generally admitted and fully substantiated by objective evidence, constitutes the principal case for providing for new, specialized investment facilities for small business.

The two bills differ in the tax relief that would be specially available to the proposed investment institutions. We feel that some special provisions adapted to the peculiar needs of this type of institution are desirable, in view of its experimental nature and the high risk exposure to be incurred. The committee will, of course, give great weight to the advice of the Treasury Department in determining what tax provisions may be practicable.

I have emphasized the need for combining managerial and technical assistance with any financial aid to small business. Therefore, we heartily endorse those sections of the proposed legislation that would provide for the collection and dissemination of information of benefit to small business.

**Insurance of commercial bank loans:** As a means of assuring greater availability of credit to small, and particularly very small, businesses, the proposed legislation would authorize an insurance program for small-business loans. The program would be administered by the Secretary of Commerce under S. 3625; it would be handled by the investment companies under S. 2975.

Loans would be insured without any preliminary review of individual loans. However, because of this automatic feature of the plan, the insurance would be limited to very small loans with maturities of not more than 5 years—loans which would not justify the expense and work of reinvestigation by the insuring agency on an individual basis. The principal amount of an insured loan could not exceed \$25,000 under one bill, or \$10,000 under the other. The total insurance protection afforded to any financing institution would be limited to 10 percent of the aggregate amount of its total insured business loans. Also, in order to make certain that the financing institutions would carry a reasonable share of the risk, the insurance



coverage on any one specific loan would not be more than a certain percentage of the unpaid balance, 90 percent under one bill and 95 percent under the other.

Reasons for the loan insurance program can be summarized about as follows: Because of the expense of credit and risk appraisal, loans to many small and to most very small business concerns must ordinarily be made on a banker's personal knowledge of the applicant's abilities, character, and financial worth, without the benefit of costly investigations. Where the businessman's banking contact is impersonal or casual, information of the type needed for negotiating a loan may be inadequate and the work and expense of getting the information may be too great.

No one can say how large a volume of insured small-business loans would be generated by the banking system under the proposed program. We have noted an expansion of specialized plans for loans to small business by insurance companies and by banks in some areas of the country. Considering the favorable experience of these institutions, it is anticipated that other new plans will be developed, particularly since there is considerable interest on the part of private financial institutions to cultivate the demand in this field. In view of this rapidly changing situation, I would prefer to see this program of insuring loans placed in the hands of the proposed investment companies where it could be flexibly adapted to the needs of various areas of the country.

Senator SPARKMAN. Mr. McCabe, under S. 3625 the Secretary of Commerce is given the right, you know, to designate or utilize the national investment company as his agent.

Mr. McCABE. That is right, sir.

Senator SPARKMAN. It seems to me that the argument you made as to the gradual development of the investment company program might likewise be a pretty good argument in favor of the insurance program as provided for under the Secretary of Commerce, because he can carry that on in areas where there is no investment company yet functioning. And yet in an area where you have established an investment company he can delegate the authority to that investment bank to do business in that area.

Mr. McCABE. The authority in both bills to the investment companies is rather broad and flexible. You could, Senator Sparkman, set up one of these investment companies and have it do—

Senator SPARKMAN. An insurance business for the whole country?

Mr. McCABE. For the whole country, if you want.

Senator SPARKMAN. That can be done under S. 3625?

Mr. McCABE. Our thought is that, if you are going to set up the investment companies, it would be better to center them where not only would they have the responsibility for equity financing and long-term credit, but also any insurance program that might be developed.

Senator SPARKMAN. Of course, that can be worked out under the terms of the bill as it is now drawn?

Mr. McCABE. The particular point is provided for more clearly in S. 2975.

Senator BENTON. Do you not think it would be better to do it through the 36 local companies, Mr. McCabe?

Mr. McCABE. That is right, gentlemen.

Senator BENTON. I would think so, too. It would help make investment in these 36 companies more attractive and help make the companies more stable, it would seem to me.

Mr. McCABE. Yes.

Senator SPARKMAN. Once the 36 companies are organized.

Senator BENTON. Yes. Until that time——

Senator SPARKMAN. Until that time, it seems to me it might very well be a transitional program.

Mr. McCABE. You could, however, with the investment companies, after you have set one or two of them up, have them insure loans on a Nation-wide basis, if they wanted to.

Senator BENTON. Until the others get going, you mean?

Mr. McCABE. Yes.

Senator, that was a subject of great discussion that has continued over weeks, even for a few months. We went into it very exhaustively with Senator O'Mahoney and one of his staff members, who is vitally interested in it. I think he is going to testify here tomorrow.

The CHAIRMAN. That is right.

Mr. McCABE. Then we went into it very exhaustively with many others. We came out with this conclusion here as our best judgment as to how it could be done.

Senator SPARKMAN. By the way, Mr. McCabe, in that connection, is it not true that one of the subcommittees of the Joint Committee on the Economic Report, in making its study came up with the conclusion that one of the greatest needs for small business was investment capital, equity capital?

Mr. McCABE. You see, Senator O'Mahoney is chairman of the committee——

Senator SPARKMAN. Yes, and it was out of that he introduced this bill.

Mr. McCABE. It was out of that discussion that I mentioned that in the earlier part of my report.

The interesting part here is that the suggestion or the two suggestions prior to Senator O'Mahoney's coming forth with his suggestion, came from private industry, one from the Investment Bankers Association, first; and the second that I have referred to from the CED.

Senator SPARKMAN. And then the Federal Reserve Board, acting on that recommendation, recommended to Congress in 1944 that something be done, did it not?

Mr. McCABE. Yes.

Senator SPARKMAN. An extension of the V loan program to postwar operation?

Mr. McCABE. Yes.

Senator SPARKMAN. And then in 1948, a bill was introduced and hearings were held before this committee for similar programs?

Mr. McCABE. That is right.

Senator SPARKMAN. So this is not something that is brand new out of the sky, is it?

Mr. McCABE. This has been under discussion for a good many years.

Senator SPARKMAN. And has been pushed by the Federal Reserve Board for a good long time, certain parts of it?

Mr. McCABE. As I say, the so-called capital banks or investment companies, as they are referred to, that suggestion, as I say, came out of private industry in which it was recommended in the two reports I have referred to that the Federal Reserve set up such institutions.

Then there was what we call the Tobey bill, which had the guarantee principle in it. The Federal Reserve, as I recall, at the time asked for that as the stand-by authority which it might use at the proper time.

Congress never acted on that particular recommendation.

Senator SPARKMAN. But the first two impulses came first from the investment bankers, the second from this group of industrial and economic leaders of the United States, the Committee on Economic Development, and then the Federal Reserve Board studied it and transmitted its recommendations to Congress?

Mr. McCABE. Yes. In chronological order, there was the joint committee study.

Senator SPARKMAN. The joint committee came next?

Mr. McCABE. It came next; then the President's recommendation. And then, in conclusion, if I might just complete this—

Senator SPARKMAN. Yes. I just wanted to get the point clearly before us that this is not a new program which the Government is trying to impose on the people. It is one that has come from the people up to Congress.

Mr. McCABE. That is right, sir.

In conclusion, I would like to say that the proposal for the investment companies contained in this legislation was originally conceived not by the Federal Reserve but by private finance. The role projected for us was first suggested in the Fennelly report of the Investment Bankers Association in 1945 and later by the Committee for Economic Development after an exhaustive study of small-business problems. After full hearings by his subcommittee of the Joint Committee on the Economic Report, Senator O'Mahoney undertook to give the suggestion concrete legislative form. Recently, in his message to the Congress, the President endorsed this same proposal.

We would like to have it distinctly understood that we do not wish to be placed in the role of asking that Congress increase our powers. However, if the Congress elects to place these responsibilities in our hands, let me assure you that the wishes of the Congress will be carried out as vigorously, soundly, and expeditiously as we know how.

The CHAIRMAN. Mr. Chairman, I want to congratulate you on that statement. I know that it will be very helpful and of much interest to many people in this Nation. I think it is one of the best statements on the situation I have ever read or ever listened to.

Mr. McCABE. Thank you, sir.

Senator BENTON. May I concur in that, Mr. Chairman?

Mr. McCabe is one of our most distinguished public servants, and this statement is a further explanation of how he got to that place. It further accounts for his wonderful reputation. It is a wonderful statement.

Senator SPARKMAN. I want to say it is one of the finest statements that has ever been presented to this committee.

Mr. McCABE. Thank you, Senator Sparkman.

The CHAIRMAN. If there are no further questions, we will stand in recess until 10 o'clock tomorrow morning.

(Whereupon, at 12:15 p.m., the committee recessed until 10 a.m., Wednesday, June 28, 1950.)



## SMALL BUSINESS ACT OF 1950

WEDNESDAY, JUNE 23, 1950

UNITED STATES SENATE,  
COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C.*

The committee met, pursuant to recess, at 10 a. m., in room 301, Senate Office Building, Senator Burnet R. Maybank (chairman) presiding.

Present: Senators Maybank, Frear, and Douglas.

Also present: Senator Benton.

The CHAIRMAN. I will ask the committee to come to order.

I want to make this statement for the record:

Senator O'Mahoney was supposed to follow Senator Lucas as a witness today, but because of the special meeting of the Appropriations Committee this morning to try and pass a contingent resolution, he will be unable to attend this meeting. In view of the fact that all appropriations expire at the end of this week, the members of this committee who are members of the Appropriations Committee, must necessarily attend the session of that committee today.

Senator O'Mahoney asked me to state that he felt that it was absolutely essential that he be at the Appropriations Committee, and when we are through with this meeting I am going there myself. He did want me to publish in the record a letter from him, and he said that he would like to testify at some time when we resumed the hearings.

I will have the letter of Senator O'Mahoney filed. It refers to the study that the Joint Economic Committee had made, of which he is chairman. It also refers to the testimony taken in July.

(The letter referred to follows:)

CONGRESS OF THE UNITED STATES,  
JOINT COMMITTEE ON THE ECONOMIC REPORT,  
*June 27, 1950.*

HON. BURNET R. MAYBANK,  
*United States Senate, Washington, D. C.*

DEAR SENATOR MAYBANK: There is transmitted herewith a marked copy of hearings on investment conducted by a subcommittee of the Joint Committee on the Economic Report, together with a marked copy of the report made by this subcommittee, recommending the enactment of special legislation to provide capital and credit facilities for small business.

It was upon the basis of these hearings and this recommendation that I introduced S. 2975, which together with several other bills, including S. 3625, the so-called one-package bill, embodying the President's recommendations are now the subject of hearings by the Committee on Banking and Currency.

I am sure you will be interested in the evidence which was presented to us in support of the establishment of investment banks or capital banks, designed to extend private facilities for channeling private capital into the expansion of private business.

Sincerely yours,

JOSEPH C. O'MAHONEY, *Chairman.*

(The marked copy referred to will be found in the files of the committee.)

The CHAIRMAN. Senator Lucas, we are indeed happy to have you here. We know you have a lot to do and we know there are many meetings this morning. We would be happy to have you do whatever you wish, Senator.

Senator LUCAS. Thank you, Mr. Chairman.

**STATEMENT OF SCOTT W. LUCAS, A UNITED STATES SENATOR FROM  
THE STATE OF ILLINOIS**

Senator LUCAS. I shall read only a few pages of this manuscript which I have prepared to submit to the committee, then I shall ask unanimous consent to incorporate the remainder of the manuscript into the record.

The CHAIRMAN. Senator, I want to say, first of all, for the Senators who could not be here because of the important Appropriations Committee meeting; Senator Sparkman, who at this time is testifying before the Expenditures Committee on the FNMA legislation—Senator Frear is on his way here—they have all told me that they look forward with great interest to reading your manuscript, as they are deeply interested in the legislation which you have introduced. They have also asked me to express their regrets for not being able to be present this morning.

I, myself, am sorry to have called this meeting, but it was arranged for last week before we knew that this appropriations matter that is so important to everybody in the United States was to be held this morning.

Will you please proceed, Senator?

Senator LUCAS. Mr. Chairman, I am thoroughly cognizant of the manifold duties of the members of this committee, and I thoroughly understand why many of them cannot be here. I do hope, however, that they find time to eventually read the manuscript.

The CHAIRMAN. Senator, I will say this: The committee has decided that we will commence these hearings again after we get through with the appropriations bill and after the Fourth of July. There is one other thing we have to do in this committee and that is to pass some sort of bill in connection with the FNMA mortgage situation, which is serious. We are going to hold those hearings on the 12th, 13th, and 14th, because Mr. Foley and some of the other officials will be out of the city until that time. But immediately upon the completion of the FNMA legislation that is now before this committee we are going to resume the hearings, and we will be glad to have you come back, if you wish. In the meantime I am certain the committee members are going to read with a great deal of interest whatever you have to say.

Senator LUCAS. I want to thank the distinguished members of your committee for inviting me to testify on Senate bill 3625, introduced by the distinguished chairman of the committee, Senator Maybank, together with Senator O'Mahoney, Senator Sparkman, and myself.

This bill is directed at two major problems. First, the unavailability of capital for small-business enterprise, and, secondly, the disadvantageous competitive position of small business resulting

from the technological advances of the last few decades. I shall discuss these two major problems separately.

The proof seems conclusive that small- and independent-business enterprises are facing insurmountable difficulties in obtaining adequate and essential financial assistance on reasonable terms. I have no doubt that witnesses will appear before your committee who will deny that main premise. These witnesses will hasten to point out that any sound business enterprise today is able to obtain adequate financial aid merely by making its needs known to existing private banking and lending institutions. In my opinion, those who take this view are overlooking many significant facts.

Numerous objective surveys, conducted by congressional committees and private organizations over the last few years, have come to the single conclusion that our small independent-business enterprises, as a group, cannot obtain adequate financing on reasonable terms. This conclusion was reached very recently by a subcommittee of the Joint Committee on the Economic Report. This subcommittee, in its report on March 23 of this year, made the following statement:

From the evidence submitted to the subcommittee, it seems clear that one of the important questions facing the American people today is to determine what steps can and should be taken to preserve an open door for investment in little and local business in terms of ownership as well as in terms of debt. That problem is paramount to the development of a steadily expanding economy.

This is found on page 7, Senate Document 149, title: "Volume and Stability of Private Investment, Joint Committee on Economic Report."

The Research and Policy Committee for the Committee on Economic Development, a private research organization, has come to the same conclusion. This organization includes among its members Paul Hoffman, Administrator of the ECA; Marion B. Folsom, treasurer of the Eastman Kodak Co., and Eris A. Johnston, former president of the United States Chamber of Commerce. This private research committee in an official report has summed up the needs of small business in these words:

One of the fundamental needs of small- and medium-sized business is more adequate financing. From a long-run standpoint, the financing of small- and medium-sized business has appeared to become aggressively more difficult \* \* \* small business needs more long-term credit \* \* \* (p. 30, Meeting the Special Problem of Small Business, a statement of national policy, Committee for Economic Development).

Those who come before this committee and testify that small business can attain its financial needs merely by asking must be prepared to refute the large volume of evidence upon which the conclusions of these public and private studies are based. Those who would deny that there is any need for positive action by Congress must also be prepared to explain away several other significant facts.

The records of the Securities and Exchange Commission leave no question in anybody's mind that the average small-business enterprise is unable to obtain capital through the marketing of its securities. Underwriters are hesitant to deal in unknown securities, and the public is reluctant to purchase them. The records of the Securities and Exchange Commission show that a very small percentage of the stocks which small companies register with it ever find a market.

Also, high underwriters' fees discourage small companies from raising capital through security issues. Underwriters' fees in many cases amount to as much as 20 percent of every dollar's worth of securities marketed.

Proof of that can be found in the SEC Study for 1944; the total cost of small flotations of common stock is 21.6 percent of the expected proceeds. The cost of registering with the SEC is about 1 percent. The greater part of the remaining cost is for underwriters' fees.

The difficulties in the way of security financing by small businesses are summed up very clearly in a recent publication of the Committee for Economic Development under the caption "Small Business: Its place and Problems." This publication states on page 136:

Flotation of the securities of small business through regular investment channels is practically impossible or prohibitively high in cost.

Capital is usually available to small firms only on the most rigid terms; interest rates are high and maturities are short. The interest rates charged by commercial lending institutions on small-business loans are frequently two and three times as large as the interest rates paid by large borrowers. This is still true, even though the risk is greater in the case of a loan to a large borrower than it is in the case of a small-business loan.

Loans by member banks of the Federal Reserve in 1942: (a) borrowers with assets over \$5,000,000; interest rates averaged 1.8 percent, and (b) borrowers with assets under \$50,000; interest rate averaged 5.5 percent.

Mr. Chairman, I shall move away for a moment from the manuscript to comment briefly upon this last example. It seems to me that those figures demonstrate beyond the shadow of a doubt the need for legislation dealing with small-business loans.

Here are borrowers whose assets are tremendous and whose loans are great receiving capital at the interest rate averaging 1.8 percent, while the borrowers whose assets are under \$50,000 are required to pay an average of 5.5 percent. There is something radically wrong between those two figures that ought to be corrected by proper legislation.

The CHAIRMAN. Those figures would clearly show the profits of the company would be the difference in the interest rates.

Senator LUCAS. Small-business enterprises are continuously faced with difficulty in obtaining capital on a long-term basis. Many private banking institutions as a general policy prefer short-term loans with maturity dates of less than a year: Mr. Roy Foulke of Dun & Bradstreet, in a statement before the Senate Small Business Committee in 1943 on the financial needs of small- and intermediate-sized businesses, said:

Under the existing set-up of our economic structure, we find no organized source or sources to provide long-term money. \* \* \*

The recent studies which I have already mentioned show that this problem still exists.

These are some of the considerations which prompted me on January 30 to introduce S. 2947, the main features of which have since been combined into the bill which your committee is now considering. However, there are other important considerations which we should



bear in mind in passing upon the desirability of this proposed legislation.

The credit facilities provided for in this bill should result in an upsurge of business activity. On the long-run basis these new credit facilities will bring about a greatly expanded economy. Approximately 26 percent of all new business enterprises undertaken annually are unable to survive for even as long as a year. All of these failures, of course, cannot be attributed to a lack of financial assistance. However, a fair proportion of them can be, and a large proportion of these failures can be directly attributed to a lack of management aids and technological knowledge which this bill also attempts to remedy. This bill would prevent many of these failures, and every single business enterprises that is saved is a net gain to the over-all prosperity and security of the United States.

Mr. Chairman, I do not want this committee to understand that I am in favor of providing credit to every Tom, Dick, and Harry. I am firmly opposed to aiding inefficient and fly-by-night businesses. This bill, it seems to me, will assist sound and efficient small-business concerns which at an emergency or crisis, need money and cannot get it. That is one of the things that I had in mind when I introduced this legislation.

The CHAIRMAN. As I understand the bill, and as the Senator understands it, it is a bill to help private industry and to help private business; that is, to help legitimate small business.

Senator LUCAS. That is correct.

The CHAIRMAN. They have to put up collateral and borrow the money, and to the extent of an RFC loan the amortization would be from 10 to 15 years. A capital bank would be set up by private banks through the Federal Reserve.

Senator LUCAS. It should be a boon to private banks.

The CHAIRMAN. Yes.

Senator LUCAS. The statistics contained in a recent committee print of the Joint Committee on the Economic Report reveal these extremely important economic facts. Ten percent of our total business enterprises go out of business every year. The number of discontinuances among new and established businesses during a single year are just about equal to the number of new business enterprises started during the same year.

An examination of these facts leads to this conclusion: If we can succeed by this legislation and through other governmental policies in reducing the number of business discontinuances by 50 percent, we can double the total number of business enterprises in the United States within a period of 20 years.

This is not only a worth-while goal; this is a necessary goal. Our population has doubled within the last 50 years and will continue to grow. Our business activity must keep pace. The business activity in the United States reached a high level during the war years, and it has continued at a high level in the years since the war. We are enjoying in America today an unprecedented prosperity, and there is no reason to assume at any time in the foreseeable future that there will be any slackening of business activity. However, on a long-range basis, steps must be taken to assure the continuation of our present high level employment and business activity. Published statistics of

the Department of Labor present the fact that the labor force in America, the men and women able and willing to work, is constantly growing. It becomes larger each year. This economic fact means one thing: Business activity in the United States must also constantly and steadily expand.

I believe it is fair to say that we must look primarily to small-independent business as our main source of new business activity in the United States. Our large business corporations will continue to contribute to business activity and expansion, but the main source of business development is the hundreds of thousands of new enterprises which are undertaken each year and the millions of other small enterprises which can be expanded on a sound economic basis if we can succeed in creating a climate conducive to the growth and continuing vitality of small independent enterprises. This bill goes a long way toward creating this climate.

Mr. Chairman, under no circumstances can we afford to permit the small-independent-business man to get out of business. Under no circumstances can we afford to permit large business organization to absorb our small-business enterprises and in the end destroy small business as an institution. In my opinion, these small-independent businesses at every crossroads throughout America are the backbone of our country.

THE CHAIRMAN. I want to say this, if the Senator will permit: I thoroughly agree with him that small business is the backbone of the country. I want to say that I presume that it is his intention, as it is my intention, certainly that the banks could do more for small business. Some banks have done a great deal. I was amazed to discover what the Bank of America in California was doing for small-business interests in that State in the amount of loans they were making. I was also delighted to learn what the Chase Bank has done. I want to pay my respects, as chairman of this committee, and to congratulate them on how far they have moved forward toward small business. But some of the banks have not. The idea of this bill is to help the banks to move forward, as these two banks have done and as others have moved forward. I think that that is the soundest attitude to take: that private bankers can, through the sections of this bill, really aid small business. Through the 90-percent guaranty, they can really aid small business.

Senator BENTON. I would just like to point out to the senior Senator from Illinois that I very much like his addition of the word "independent" in the phrase he has just used, when he referred to small "independent" business, because to me the addition of the word "independent" enlarges the size of the businesses that are included in the word "small." I wondered if you would agree that the addition of the word "independent" enlarges the size of the business you are talking about. When you use the word "small," field by field, it would vary. But when you throw in the word "independent" it embraces businesses that may seem large in relationship to the mass of our small businesses throughout the country, but which are, in effect, small in their particular industries. This would be particularly true in a highly industrialized State like Illinois or my State of Connecticut.

Senator LUCAS. Yes; I agree with the Senator.

Senator BENTON. I think, Mr. Chairman, I would like to see the word "independent" used wherever we use the word "small" in our

discussions. I would like to adopt the Senator from Illinois's phrase and adopt it as a permanent addition to our vocabulary, referring to small independent business, instead of merely to small business. I think it is a better phrase, a more exact phrase, and more nearly describes what we are talking about.

The CHAIRMAN. I thank the Senator from Connecticut for that suggestion, but in the Banking and Currency Committee we all use that word.

I want to say, further, that the Senator has referred to hearings before the Joint Committee on the Economic Report, various hearings on small business, and so forth. In my judgment, all of these hearings that have been held by the Joint Committee and the Banking and Currency Committee and by the Small Business Committee, with the aid of our good friends of the press, have brought the attention throughout the country to a situation that they are independent small-business firms, and in my judgment the hearings have been greatly helped by the publicity that we have so generously received from the various newspapers and the press. I think it has had a lot to do toward a little better situation, although it is not by any means perfect, as far as the small independent-business man is concerned today.

This is true also in connection with certain of the banks that have gone all the way out, like the Bank of America and the Chase Bank, and some others.

Senator BENTON. I think your efforts have even affected the banks, Mr. Chairman. I pay you higher tribute. It has not only affected the press, but the banks, and that is even a higher compliment to you and your committee.

The CHAIRMAN. The press has been very generous. I must say our desire is to have the banks throughout the United States cooperate in this thing through this bill.

Go ahead, Senator, I am sorry.

Senator LUCAS. Mr. Chairman, it has never been more necessary than now that we have a sound and expanding system of competitive free enterprise in America. Because of the international obligations that face us as a nation, the financial burden on our Government is heavier today than it has ever been during peacetime. These heavy burdens make it absolutely necessary that we have a healthy and stable business economy. The financial resources of our Government are directly dependent upon the total national income of our people. This bill, with the salutary effects it will have on business activity, has a vital place in our over-all national policy.

Several distinct methods of assisting small business are set out in this bill. You will no doubt receive abundant testimony on each of these aspects. I shall confine my remaining remarks to these particular points: The provisions dealing with the lending powers of the RFC, and the provisions relating to technological assistance to small business. As the distinguished members of your committee know, I introduced S. 2947 on January 30 of this year which is practically identical with the RFC provisions in the bill before you.

Also on March 14 I made an extended statement on the floor of the Senate on the subject of technological aids for small business. At that time I prepared an amendment to S. 2947 which would have dealt with the technological problems of small business. I with-

held this amendment, however, in view of the fact that I, along with other Senators, had decided to introduce the present bill which makes adequate provision for meeting the technological problems of small business.

Title III of the bill you are considering authorizes the RFC to participate with private lending institutions in making loans to small business. The RFC's participation, if on a deferred basis, operates for all practical purposes as a Government guaranty of a private loan. The private lending institution in making a loan to a small-business firm would have the right to call upon the RFC at a later date to take off its hands a portion of the loan equal to the RFC's percentage of participation. Section 304 of this title limits the amount of participation by the RFC to 80 percent.

Parenthetically speaking, Mr. Chairman, there is a movement in this country to wind up the RFC. So far as the Senator from Illinois is concerned, he does not believe that that would be a sound policy or would benefit the economic affairs of this Nation. I am confident the RFC has a place in the Government, and any attempt to dissolve the RFC would meet with my resistance.

The CHAIRMAN. I want to thoroughly agree with the Senator from Illinois and the majority leader, that I think it would be nothing short of a tragedy to do away with the RFC. It has its place in the Government, just as the other private institutions have. When we were in trouble, and we may well be in trouble again some day, it was the RFC that helped so many of the private banks who now want to do away with it.

Senator LUCAS. They helped our banks in 1932. They were the first fellows to come here for help.

Let me emphasize at this point that, under the terms of this bill, assistance from the RFC would be available only as a last resort. Section 302 specifically provides that no financial assistance shall be extended by the RFC unless the aid applied for is not available on reasonable terms from any other source including the national investment companies to be established under this bill. Another point I wish to emphasize again is that, even when recourse is made to the RFC, the loan by all probability will be made by a private lending institution with the RFC standing behind a certain percentage of it.

A very important feature of title III is that provision which permits financial assistance to be given small business enterprises with emphasis upon management abilities and potential earnings rather than upon collateral security.

I do not believe that we should be the least hesitant in adopting this approach in aiding small business. I am confident that loans can be made to small business enterprises with primary emphasis being given to management skills and potential earnings without appreciably increasing the risk of loss.

At this point, I should like to make it clear that this bill does not contemplate that collateral security will be dispensed with entirely. My purpose in originally proposing this method in S. 2947 was merely to take the primary emphasis from collateral security and place it on other criteria which, I think, in the long run are far more accurate measurements of the ability of the small-business man to meet his financial obligations than is collateral security.

The traditional practice of placing the greatest emphasis upon collateral security may be open to some questioning. The usual form of collateral is unencumbered physical assets of a business. These may be practically worthless if the business is inefficiently operated or has no economic justification. I recognize that any lending institution, private or public, must consider the factors of potential earnings and management skills when it makes a loan; that is not new. The trouble, however, under existing practices is that many requests for worthwhile loans are turned down because of the lack of collateral security even before the lending institution gets around to considering the factors of potential earnings and management ability. It is this fact which I am attempting to change.

Title III of this bill also allows the RFC to extend loans over a period of 15 years. As I earlier emphasized, longer maturities are very essential. The President in his state of the union message and in his message on small business made this recommendation. The Committee for Economic Development, from which I quoted earlier, a private research organization, has stated:

One of the fundamental needs of small and medium-size business is more long-term credit (P. 30, Meeting the Special Problems of Small Business, June 19, 1947, Committee for Economic Development).

I have received numerous letters from businessmen all over the United States who have complained of the inability to obtain adequate long-term credit. These longer maturities meet one of the most pressing needs of small business.

The question very properly arises whether or not it is necessary to liberalize the lending facilities of the RFC in the interest of small business in view of the other provisions in this bill intended to ease the flow of capital to small enterprises. In my opinion these RFC provisions are very necessary. The insurance provisions of this bill are not intended to provide any substantial amount of capital to small business on a long-term basis. The amount of loans to any concern is limited to \$25,000 and the duration of these loans is limited to 5 years.

The national investment companies to be set up under this bill are intended to make long-term capital in substantial amounts available to small enterprises. If these national investment companies function as successfully as we expect they will, there should be very few occasions when small business enterprises will turn to the RFC for assistance.

There is one distinct fact, however, which, in my opinion, justifies broadening the authority of the RFC. That fact is this: The national investment companies are, for all practical purposes, private lending companies. Most of their capital stock will be owned privately. The debentures of these companies will be marketed privately and in competition with the debentures of other private business concerns. If these investment companies are to succeed they must have earnings sufficiently high to attract private capital. It is my personal view that they will, as I believe the present loan requirements encountered by small-business firms can be substantially relaxed with the lending institutions still able to maintain a fair earnings record.

However, the fact is that the proposed national investment companies and private lending institutions will for competitive reasons, require a larger profit on their investments than is required by the

RFC. The RFC, while conducting an entirely self-sustaining lending operation under this bill without any cost whatsoever to the taxpayers, will be able to aid sound, efficient business firms which can not meet the lending requirements of either the proposed national investment companies or private lending institutions. I hasten to emphasize that this does not at all mean that the RFC under this program would be offering easier credit in competition with private institutions. It is to be noted that the provisions of this bill open up this source of credit only after the borrower has been turned down by every private lending institution to which he has applied including the national investment companies.

The RFC provisions in this bill will make it possible for a sound, efficient business enterprise to obtain essential financial assistance when it has recourse to no other source of capital. In fact, this is one of the main objectives of this comprehensive bill.

The bill introduced by me on January 30, S. 2947, authorized the RFC to participate up to 90 percent of the amount of an outstanding small-business loan. Section 304 of the bill you are considering places the maximum participation at 80 percent. I believe the committee should give the matter of the percentage of participation serious consideration.

The higher the percentage of participation, the greater will be the incentive for private banks to cooperate with the RFC. With primary emphasis removed from collateral security, private banks may be hesitant in investing under this program unless the percentage of participation is quite liberal. It may therefore be desirable to place the percentage of participation at a high level.

For the reasons that I have briefly outlined, I firmly believe that your committee should approve the features of this bill dealing with the RFC. These provisions are an essential part of the over-all financial assistance program provided for in this bill.

Title V of S. 3625 provides for a comprehensive program of technological and managerial assistance for small-business firms. This, in my opinion, is a very vital part of the bill. I first directed my attention to this problem many months ago. At my request the National Bureau of Standards made a cursory survey of the thousands of patents held by the United States in order to determine their adaptability for the use of small-business firms. A fair proportion of these patents could be used by our small-business firms. The enactment of title V of this bill will permit the Department of Commerce to collect and screen this patent information and encourage its use among our small-business firms.

On March 14 of this year, I made an extended statement on the floor of the Senate on the technological problems of small business. At that time I stated that the technological advances of the last few years have had a more profound impact upon existing methods of producing and marketing than the industrial revolution had in its day. I pointed out at that time that small business to grow and prosper must keep pace in this new technological age.

Large business corporations are able to maintain modern technical laboratories and research staffs which have enabled them to take advantage of the vast amount of technical knowledge which has been accumulated over the last decade by private research laboratories and

by the Government. In this respect the average small business enterprise with no laboratory facilities and with very little technical experience is suffering a real disadvantage.

The disadvantages are mainly competitive. Larger firms through scientific production processes have substantially reduced unit costs. Through scientific methods of specification purchasing and acceptance testing, these large firms have minimized waste in materials. As I view title V of this bill, it will go a long way toward placing small-business firms on an even competitive basis with our larger business organizations.

My discussions of these technological problems with representatives of Government, industry, and research laboratories, have brought me to the conclusion that the efforts to solve these serious problems should be on a cooperative basis with small-business firms, private research laboratories, engineering schools, and the Government, all working together in discovering where the problems lie and what methods should be used to remedy them. Such cooperative programs would assure the greatest results with a minimum of wasted effort. Small-business firms working together would make known their problems which they consider the most serious and steps could be taken promptly to remedy them.

I believe there would be considerable merit in the committee's adding to title V a statement of Congressional policy to the effect that the primary initiative in solving the technological problems of small business should come from small business firms themselves. Such a statement of policy might follow this form:

It is the sense of Congress that technological problems of small business should be solved as far as is feasible through privately initiated programs and that business enterprises, educational institutions, and qualified research laboratories should cooperate in the solution of such problems. The Secretary is hereby authorized to utilize to the fullest the authority placed in him under this title in cooperating in such programs.

This statement of policy would demonstrate to our small business firms that the Government under this program is to work with them and not do the work for them. It should result in a higher degree of cooperation on the part of all interested groups in bringing about solutions to the problems of small business. This statement of policy would also enlist for this program the support of those who may now fear that the Department of Commerce may carry out its function without full coordination and consultation with business and research groups.

As I see it, this statement of policy does not limit the authority of the Secretary under this title, but it merely gives a general assurance that small business will be called upon to play an active part in the solution of its own problems. It is my firm opinion that the provisions of this bill treating with the technological problems of small business are just as vital as any other part of this comprehensive program for small business.

In conclusion, I want to emphasize that there is much that the independent businessmen can do themselves to preserve their independence and assure their continuing vitality. Congress should concern itself only with those problems which small business, acting independently or cooperatively, is still unable to solve for itself.

The small-business people of America by virtue of their dignity as self-dependent men and women have never demanded preferred status

from their government; they have chosen to solve their own problems through independent effort and hard work. But in this age of modern technology, intricate finance, and concentration of business control, small business is faced with problems that cannot be solved through independent effort and hard work. These are the problems that Congress must take positive steps toward correcting if we are to create an environment conducive to the continued independence of free, competitive small-business enterprises.

The CHAIRMAN. We very much appreciate the Senator appearing here today, and we want to assure him that if he desires to have witnesses appear, from Illinois or elsewhere when we commence hearings again, we will be happy to have them.

Senator LUCAS. Let me say this to you, Mr. Chairman: If any members of the committee, after reading the manuscript that I have prepared and submitted for the record, desire to have me return to the committee for the purpose of cross examination on any phase of this bill, I shall be more than happy to comply with their request.

Senator BENTON. May I say, Mr. Chairman, that of the many areas that the senior Senator from Illinois takes leadership, this is by far from being the least significant.

Senator LUCAS. I thank you.

Senator BENTON. If the business community feels as I do, it will pay tribute to the leadership you are showing here.

Senator LUCAS. Thank you very much.

The CHAIRMAN. Now, gentlemen, Mr. Cosgriff.

We are pleased to have you here, Mr. Cosgriff, and are sorry that there are not more members present, but because of certain other committee hearings that were set some time ago the Senators have been detained.

Will you proceed, sir?

**STATEMENT OF WALTER E. COSGRIFF, PRESIDENT, CONTINENTAL NATIONAL BANK & TRUST CO., SALT LAKE CITY, UTAH**

Mr. COSGRIFF. My name is Walter E. Cosgriff. I am president of the Continental National Bank & Trust Co. of Salt Lake City, Utah. I have been president of this institution since September 1941 and an officer of the same institution since June 1934. In addition to this, my family and myself have the controlling interest in nine different banks located in the States of Utah, Idaho, Wyoming, and Colorado. Some of these banks have small branches in different towns than that in which the head office is located. The combined assets of these various institutions exceed \$100,000,000. I am president, vice president, director or chairman of the board of directors of several of these institutions.

I have also had occasion to do substantial banking business in several western States in addition to the ones previously mentioned. In my various connections I feel I have been and am in a good position to observe the functioning of credit throughout most of the western United States.

At this time I might state that the major portion of my remarks will be directed to title I of S. 3625, although at the close I will make a few limited comments on titles II, III, and V of the bill.



I appreciate very much the opportunity to appear before this committee and to express my personal views toward the proposed Small Business Act of 1950. It is my firm conviction that in a large part of the country it is difficult, if not impossible, for small business to obtain the credit to which it is justly entitled from banks or other financial institutions. This is a hard subject to generalize on because of the very nature of the banking business itself. In one town, for example, a bank or banks therein located may be honestly and conscientiously trying to extend credit to small business and doing a very good job in this respect. In other towns, the bank or banks located therein may be doing little or nothing in this regard.

In the case of towns in this latter category it is difficult or impossible for businessmen to seek credit in other localities because (a) the businessman may be unknown to the bankers there; or (b) the bankers may have all they can do to care for the needs of the people in their own localities and not have additional credit available for outsiders.

A statement as to the reasons why banks may not care to extend credit to small business might be advisable at this time. In my opinion, the banking business generally has undergone a great change in the last 10 years; this especially refers to that period shortly after the outbreak of World War II until the present time.

Prior to 1940 the total amount of Government bonds or other evidence of indebtedness on the market was relatively small in terms which we are accustomed to consider today; i. e., the national debt varied between 40 and 50 billions, whereas today it is five times greater. Second, as a result of World War II and activities connected directly therewith, the amounts of money and credit available to banks have enormously increased; in fact, it has been doubled and tripled in many cases; whereas, the actual number of banks in the United States has been gradually declining over a long period of time. In 1939 there were 14,484 banks; in 1949 there were 13,429.

Therefore, the deposits and resources of practically all banks have enormously increased. Third, as a result of greatly expanded FHA and GI insured-mortgage lending which is primarily supervised by agencies of the Federal Government, a great many guaranteed obligations have gone on the market and have become available for investment by banks and other financial institutions. Now, prior to 1940, or thereabouts, banks generally had to make their living, i. e., expenses and a profit to their stockholders, by loaning money to general business and industry and receiving interest therefrom. Certainly, it is true that the principal, and in many cases practically the only source of profit to banks during this period, was the interest they received on industrial and commercial loans. Therefore, if a bank failed to make these loans in quantity, it saw its profits diminish to the break-even point or lower. In short, if the profit motive is accepted as dominant in the banking business, this would insure that loans to business and industry would be made. However, as a result of the enormous increase in the availability of Government bonds and Government-insured loans of various kinds and the expansion in the amount of deposits a bank had to work with, it is now entirely possible for a bank to make all expenses, plus a considerable profit, by merely taking its depositors' funds and investing them in so-called riskless assets.

This situation was graphically depicted by my conversation with a fellow banker during the closing stages of World War II. I reminded him that less than 8 percent of his deposits had been loaned to business and individuals in his community. He replied, in effect, "Why should I take the risk and do the work incident to loaning money as you suggest? My investment in Government bonds yields sufficient interest to put me in the excess profits income tax bracket, so why should I worry about loaning money?"

Since the war, of course, with the repeal of the excess profits tax, this situation has been somewhat improved, although it could, I think, be readily agreed that the existence of high taxes, plus the availability of so-called riskless assets has enormously decreased the incentive for a bank to go out and make loans to business and industry; or, in other words, to make loans on risk assets.

If my reasoning so far is correct, it should seem that today from a strict matter of profitable operations, loans to business and industry, comprising risk assets in ordinary banking parlance, are at a great disadvantage as against the ease and security of investing in Government bonds and Government insured loans, which comprise so-called riskless assets. It would seem, therefore, to me that something must be done in order to close this preference gap.

In my opinion, the first title of the proposed act, known as the Bimson plan, would be a step in the right direction towards accomplishing this goal. It would remove a large part of the risk from some of the business loans, thus making them once again at least as attractive to the average banker as other riskless types of investments, which are so prevalent on the market today. Now, I feel sure that it is axiomatic that neither the passage of this bill, nor any other single plan, will at once strike down all the difficulties small business today has in obtaining adequate credit. The whole proposition is at best experimental. It may take a matter of years to interest a sufficiently large number of bankers to allow them to develop the necessary organization and to generally make enough difference in the whole credit structure to be of full scale aid in the matter of supplying credit to small business.

In this connection, I am inclined to dwell for a moment on the title I loans under the Federal Housing Administration Act. It will be recalled, I believe, that when this act was first passed very few banks were ready immediately to take advantage of it. Even the more venturesome bankers did not get around to thoroughly testing out the possibilities of that act for several years.

Even at the present time, some 16 years after the passage of the original FHA Act, out of about 14,000 banks in the United States, less than half, i. e., 6,181, have contracts of FHA title I insurance. Of these 6,181 banks, only about two-thirds, or 4,208, are active in the making of FHA title I loans. It is my considered opinion that far less than half of these are actually doing a complete job in this respect.

Nevertheless, I think it would be generally agreed that in the 16 years since the passage of the first FHA Act, an immeasurable amount of good has been done. Hundreds of thousands of persons have been able to improve their homes through the use of credit provided by the insurance features of the FHA Act. While it is certainly true that a great deal more could be done and undoubtedly will be done

in the future, as a result of the FHA Act, I do not think that a mere delay in arriving at the ultimate benefit should be considered as an argument against taking the original step. In other words, it is always necessary to make a start even though the progress be tantalizingly slow.

It would be my prediction that if the Small Business Act of 1950 is passed, progress in making loans under it may be even slower than was the case under title I of the FHA. This is because loans to business and industry are essentially more complicated than loans to individuals and because, ordinarily speaking, the amounts are greater. However, I certainly do not believe that this should be an argument against taking the initial step by passing the proposed Small Business Act in some form at this time. It would be my hope that 16 years from now the benefits to business and industry should be apparent even as is the case today with FHA title I loans.

Now I am fully aware that the American Bankers Association is opposed to the passage of this act. While I am respectful of its opinions, I do not think that this fact alone should be allowed to conclusively argue against the act's passage. I might remind the committee that the American Bankers Association and other groups of bankers fought desperately against the establishment of the Federal Deposit Insurance Corporation, against the Federal Reserve System, and against passage of the original FHA Act, as well as the various amendments thereto.

Senator BENTON. Will the witness also add the Federal Banking Act of 1935 to his list.

Mr. COSGRIFF. Yes, I would be pleased to make that change, Senator.

The CHAIRMAN. I might suggest this—

Senator BENTON. The most important piece of legislation of that year was virtually unanimously opposed by the banks who virtually unanimously now favor it.

Mr. COSGRIFF. That is certainly true, and I think a majority of the legislation—in fact, an overwhelming majority—which has eventually proved to be beneficial was in the beginning fought by the very people whom it was intended to benefit.

Senator BENTON. Well, I congratulate the witness as a very progressive banker in bringing these things up before this committee.

The CHAIRMAN. I mentioned the names of a couple of banks here, and I know there are a lot more banks than those I mentioned that have been helping small business. The witness is from a section of the country where we have heard so much about Transamerica and the Bank of America, and so forth. All this good work that they have done came to my attention when they presented testimony here.

I wonder if the witness agrees or disagrees with me when I say that in the West they are helping smaller businesses more than the banks here in the East?

Mr. COSGRIFF. I agree with you on that, Senator, 100 percent.

The CHAIRMAN. I was amazed to learn to what extent these banks were helping small business. I understand they are doing a good job in California; am I wrong?

Mr. COSGRIFF. No, you are absolutely right, Senator.

The CHAIRMAN. But in the other sections of the country the banks are not doing anything?

Mr. COSGRIFF. You are absolutely right about that. If I might digress from the text a minute I might say this: That while I certainly do not approve of every act the Bank of America has ever performed, I would say that they have been the most progressive institution in that part of the country, if not in the entire United States, and that is shown by the growth they have made. The public has accepted them; they have gotten the business, and that to me is conclusive.

The CHAIRMAN. I am not here to make a speech, but I was very much surprised at those hearings held here. I also mentioned the Chase Bank, because I understand they have been a help to small business. There are a lot of other banks, too, that I hesitate to mention at this time, that have been called to my attention. I just wish all the banks were in a position to do what they are doing. The purpose of this bill is to have banks in various parts of the country help business.

Mr. COSGRIFF. That is true. I might also mention Mr. Bimson's bank in Arizona. I think the statement will show, and the records will show, that it has done a wonderful job.

The CHAIRMAN. As a matter of fact, he suggested some of the things in this bill. That is why I want the record to show that while I mentioned these two banks there are other banks, too, that are doing a wonderful job. However, there are plenty of them that are not doing anything.

Mr. COSGRIFF. That is certainly the fact. If I can repeat that, there are plenty of them that are doing nothing.

Senator BENTON. May I add a footnote, Mr. Chairman, that Walter Bimson is an old and very close friend of mine, and he is mentioned by name in your memorandum here. He has brought that bank in Phoenix from a low point 18 years ago when it hardly amounted to anything and you could buy its stock for practically nothing. He has made it one of the great banks of the country with his progressive policies. In return for the suggestion of his plan, known as the Bimson plan, even against that remarkable record of his, he is being attacked by the American Bankers Association and that great trade association has turned its guns on Mr. Bimson and is denouncing him and he is being pilloried by his colleagues in the banking profession. I want to join the witness in my defense of Walter Bimson and congratulate him on his leadership.

Mr. COSGRIFF. If you are interested in those figures, Senator, the record will show that when Mr. Bimson took over that bank it had approximately eight or nine million dollars in resources, and today it has \$230,000,000.

Senator BENTON. I thought it was even higher than that, but it bears on the point. The illustration that I would like to draw from it is the point I have made on the floor of the Senate, that your progressive leaders in the field of any business are more to be trusted on issues of this kind than their trade association spokesmen, and we would do better in Congress if we listen to the progressive leaders such as the witness we have before us on these issues, Mr. Chairman, rather than these trade association spokesmen who frequently are men the leaders in the industry would not employ themselves in their own businesses as assistant cashiers.

Mr. COSGRIFF. They will probably be very irate at me for the position I have taken over this, but that wouldn't be the first time they have been irate.

The CHAIRMAN. I will ask Senator Benton if he will complete these hearings. I know the witness will forgive me, but because of conflicting engagements this morning I will have to leave at this time.

Mr. COSGRIFF. Surely, sir.

The CHAIRMAN. Thank you.

Senator BENTON. This is a very interesting statement, Mr. Chairman, and I will be very glad to take over.

You may proceed, Mr. Cosgriff.

Mr. COSGRIFF. I do not think, however, that many bankers at this time would argue against the retention of the above enumerated legislation. This legislation has stood the test of time and has certainly proved, in my opinion, to be of immeasurable benefit to the banking business, as well as to the public generally. That refers to the FHA Act.

It goes to show that there is a possibility that these groups of bankers and the American Bankers Association could be wrong. Therefore, I submit that this legislation should be considered solely on its merits and on parallels which it is possible to draw from other similar types of legislation.

In the second place, this legislation is, as was the case with the FHA legislation, entirely on a voluntary basis. If a bank should not see fit to sign the necessary contracts and so on to make guaranteed small business loans, it would certainly be under no obligation to do so. It could go its own way, making loans and investments as has always been the case, but I am unable to see why if other bankers wish to participate in the plan they should be deprived of their opportunity to do so. In the case of voluntary legislation, it seems to me the "benefit of the doubt" should be in favor of those wishing to make the experiment.

At this point, I again wish to emphasize that the loan feature of the legislation can only be considered to be of an experimental nature. It will, in my opinion, require several years' experience to make an appreciable effect in the United States economy. However, I do not think that this fact should be allowed to prevent us from making the necessary start along a path which I hope will provide small business and industry with the necessary bank credit. I believe that credit is essential to the development of business and industry as we know it today. I also firmly believe that the outstanding merit of the old independent banking system as it existed 30, 40, or 50 years ago was the fact that credit was liberally extended to business and industry. Some bank failures may have occurred as a result of this policy, but nevertheless this was one of the prices we had to pay for the development of the tremendous industrial potential in the United States during this period.

There has been a good deal of talk lately about balancing the budget, reducing expenses and generally restoring the purchasing power of the dollar. Most bankers who talk on this subject stress the need for governmental economy, reduced spending, lower rates of taxation, and so on. These are certainly necessary and desirable, but, I believe, in and of themselves are incapable of preventing inflation in our economy such as it exists today.

I have heard it estimated that even if all the economies and efficiencies suggested in the report of the Hoover Commission were put into effect, considering the great need for increasing military expenses, aid to our allies, interest on the public debt, and so on, it would be impossible to reduce the budget by more than 10 percent at the outside.

It seems to me that at least an equally effective way, and perhaps a way which is much more simple, would be to increase the productive power and, consequently, the taxpaying power of the United States. It would certainly seem to me that increasing the amount of credit available to small business and industry would be of prime importance in accomplishing this objective.

I understand that today there are approximately three and a half million so-called small businesses in the United States. Suppose that number could be increased by half, and I for one would never question that this is possible, it is easy to imagine how tax collections could amount to a great deal more; how the budget could then be balanced, and how the purchasing power of the dollar could be restored.

It is my firm belief that the potential in this respect is a great deal more and possibilities for realizing it much better than merely by suggesting that we cut expenses back to the 1935 or 1936 level.

Senator BENTON. Mr. Cosgriff, did you take any part in the Committee for Economic Development?

Mr. COSGRIFF. A very small part. Not too much. I read all the reports; I know most of the bankers and a good many of the businessmen on it.

Senator BENTON. This reflects or parallels some of the thinking enunciated by the Committee for Economic Development during the war years. I wondered if you had been active in that.

Mr. COSGRIFF. Only to the point I know what they were doing. It would not be true to say that I formulated that policy or played a very important part in formulating it. I merely agreed with it.

While my primary interest in this bill has to do with title I or the small business loan insurance plan, I might also say a word about title II, the establishment of national investment companies. I must confess I have not studied this program too thoroughly, but what I have read about the plan after listening to the testimony given yesterday by Mr. McCabe, I certainly see no reason why I should not support title II.

It is a matter of common knowledge, I believe, that equity capital in one form or another is of paramount importance to business and industry today and the formulation of the national investment companies, as proposed in title II, would seem to me to be an excellent way to meet this need. While I do not believe banks would hasten to purchase the stock of these national investment companies, at least until a considerable period of time had elapsed, this objection is met by providing that the Federal Reserve banks purchase this stock. This would be true in the initial stages of the program in the hope that later on private investors would take this stock into their own portfolios.

Title III of the bill provides for liberalization of the Reconstruction Finance Corporation lending program by relaxing certain collateral requirements of the RFC Act with reference to loans made

to eligible small businesses. I have had considerable experience with various types of governmental agencies lending money, including such agencies as Regional Agricultural Credit Corporation, Production Credit Association, Reconstruction Finance Corporation and other such ventures. My personal observations are that banks generally do not have very much to fear from competition from this source.

I might digress to say that that might be considered a very radical statement by most bankers.

Most business loans, especially to small——

Senator BENTON. You think that, even today, with the RFC prohibited by law from taking any loan that could be privately placed with a bank?

Mr. COSGRIFF. I think that most banks innately resent and object to any activities on the part of the Government. I could best illustrate that by telling you of an incident that happened in the fall of last year.

There is a town in Wyoming, near Salt Lake City, Evanston. One morning I was driving down from Evanston to Salt Lake City, passing through a town named Coalville. I discovered I was out of money and didn't even have enough to buy gasoline. I knew the banker there and went in and asked if he could cash my check and he said he certainly would be glad to do so.

Senator BENTON. That is an odd role for a banker.

Mr. COSGRIFF. In order to make conversation with him I said, "Well, this is the fall of the year and you ought to be getting a considerable increase in your deposits now, because your loans to agriculture and livestock will be paying you good returns, particularly your livestock loans."

He replied, "Oh, we haven't any livestock loans." Well, that to me was abhorrent in that small community, because he should have had a great many livestock loans. It was the principal economic activity of the community. That surprised me and I said, "Why don't you have livestock loans?"

He said, "Oh, the PCA," which is the Production Credit Association, "came and got them all away from us. It was very unethical, too. They went right out and solicited them." Which would imply, of course, that the solicitation of the loan was unethical.

Senator BENTON. Explain the PCA to me.

Mr. COSGRIFF. That is a quasi-Government type of organization sponsored by the Government where the borrowers take part of their loan in stock. Then they can borrow from the banks and cooperatives under very liberal provisions, so that it is, in effect, a governmental organization operated under the supervision of Government and is, of course, in competition with private banking.

Most business loans, especially to small business, have to be made with considerable rapidity. They usually have to do with the purchase or acquisition of property of one kind or another. This may be merchandise, real estate, equipment, et cetera. Now, most of these opportunities to acquire such property are on an immediate basis. In other words, they are not standing offers. For example, if John Doe had an opportunity to buy a piece of real estate on which to construct a business, the deal must be consummated immediately. If John Doe is unable to make payment for the property, another pur-

chaser may come along and buy the property at once. Thus, if John Doe's opportunity to buy the property depends on his obtaining a loan, he must know immediately whether the loan is obtainable. He cannot wait 6 weeks, 2 months, or 3 months while various offices of any governmental agency consult with its various branches as to whether or not the loans should be made. A bank, of course, can move, if it will, with a great deal more rapidity and can be of real service to the businessman or industrialist in such circumstances. It has been my observation over a period of time that any business or industry which is able to in any way get a loan from a bank would infinitely rather do so, than resort to a Government agency.

Senator BENTON. I will concur in that. This prejudice also exists in the mind of the borrower, does it not?

Mr. COSGRIFF. That is true. If the bank will take him under any reasonable terms the bank can get the business, if it wants to.

Senator BENTON. So RFC gets what you might call the dregs of the loan?

Mr. COSGRIFF. That would be so, yes.

Senator BENTON. Which makes its record all the more remarkable. It seems to me that it has handled the dregs of these loans with no worse record—If I may use a double negative—than it has achieved over a long period of years. In fact, it is a very remarkable record, in view of the kind of business that it takes.

Mr. COSGRIFF. Yes, I think that would be true. Now, it is easy enough for bankers to sit back and shoot holes through the Lustron deal, or something like that, but to go and look at the situation at the time and then say then and there what you would do, they could very well have made the same mistakes, and as you say, the fact they take the dregs the wonder is not that they got one or two bad ones, but that they didn't get a lot more.

Senator BENTON. I agree with you. It is like the Government official who lives under the klieg lights, while the businessman buries his mistakes in his balance sheet.

Mr. COSGRIFF. I am wholly in agreement with the objectives of title V of the bill since it is a recognized fact that improved management skills and technical assistance are natural factors in the successful operation of a small business venture. This seems to me to be a very desirable adjunct to the proposed lending functions.

As a banker engaged in making loans to various sized business, I am fully aware of the importance of good management of those businesses to the success of my lending program and I, therefore, would endorse it wholeheartedly.

It is my final conclusion that titles I, II, III, and V of this bill would over a period of time be immeasurably beneficial to business and industry. I cannot see any objection to their passage. I appreciate very much this opportunity to express my views before this committee and will be glad to answer any questions which you may have.

Senator BENTON. I think this is a very remarkable statement, Mr. Cosgriff, and I congratulate you on it. It is one of the most interesting that has been submitted to this committee or to the Small Business Committee, of which I am a member, where I have attended all the hearings.

How did you happen to come here and make this statement and testify today?



Mr. COSGRIFF. What happened is this. I have always been and am known as a great admirer of Mr. Bimson. I met Mr. Bimson in May of this year in a hotel in Coronado, Calif., attending the California bankers convention. We sat down on a couch in the hotel and had quite an interesting conversation. He was there to give a speech discussing the merits of his plan. He said to me, "I feel so alone in this, I feel like the only banker in the country. I have gotten up, I have made my speech, and yet I haven't any doubt that within a short time the resolutions committee is going to come in with a resolution condemning the whole thing." He said, "I haven't a supporter in the country."

I said, "That is very much a mistake. I would like to support you and I would like to support the bill."

He said, "That is fine." After all, my bank, the one I run, is the second biggest bank in the United States under one roof; that is, not counting branches or counting each branch as a separate bank. It is the second biggest bank in the United States dealing in FHA title I paper. So as there are certain parallels between FHA title I and what is proposed here, he said, "If you would go back and help me out your testimony might be immensely valuable."

Well, perhaps he was optimistic about that, but in any event I promised him that I would do what I could, not as a personal favor, but because I sincerely believed in the theory of approach that he was using and believed that I am doing some good, if I any way am instrumental in helping this legislation pass.

Senator BENTON. Mr. Cosgriff, I think it is a most admirable paper. I share your admiration for Mr. Bimson. I know he moved to Phoenix from Chicago where he was an officer at the Harris Bank in Chicago. He is one of the most progressive businessmen I know in the country, regardless of the banking business. I have admired him for his leadership in the Department of Commerce in this field, and I congratulate you for coming to testify.

I wish that the banking trade journals would publish this testimony. I would like to see it sent out by the American Bankers Association to its membership to encourage discussion. That is the kind of role that some trade associations fill for their membership. They send out even controversial material with which they are in disagreement.

I know that the banks on the problem of reorganization plan No. 1 affecting the Comptroller of the Currency, were not adequately informed on the nature of the problem. They were never exposed to the scope and breadth of the argument, as you have tried to present here.

I wish the banks of the country could be more widely exposed to these issues through a presentation of your paper.

You give some interesting statistics here, Mr. Cosgriff, on the decline of 1,000 banks in the last 11 years, from, roughly, 14,500 to 13,500.

Mr. COSGRIFF. Those were checked very carefully yesterday at the Department of Commerce. It is fairly well known that the number of banks has been declining, but these figures have been found out to be exact from information developed yesterday.

Senator BENTON. Have you any figures on the analysis of these banks, according to the number that had a real family ownership interest in them, of the kind that you have described, that you and your family have in your bank?

Mr. COSGRIFF. That will take me quite a little time to discuss that situation, I am afraid. You see, here is the situation. Chain banks,

holding companies, the branch banking system, a thing like that ordinarily will grow at the expense of the independents. Now, my personal belief is that that is because of defects in the independents themselves.

You have right in the heart of the Bank of America territory today—and it can be very easily shown—dozens, scores, hundreds, possibly, of small independent banks thriving, doing well, getting ahead, and making a living because they look at themselves. You might put it this way. I think definitely that a chain store could not run out of business a little independent if that independent was thoroughly alive to all his possibilities—progressive, determined to make good, and so on and so forth. If the independent merely sits back and blames the chains and says, “Well, because you are getting ahead I am falling behind, and in some inherent way you are taking advantage of me,” well, then he would, I think, continue to fall behind. But I maintain, and I believe I can prove, that right in the face of chain banking, there are independents which would do just as well or better in States where there were no chains.

Senator BENTON. I would agree wholly with you, but the point that I was trying to get at was something other than that. You point out that 30 or 40 years ago the banks were making a much higher percentage of business, industrial, or what you call, risk loans, and you point out what has changed that was the ease with which the banks can invest in “riskless securities.” But has there not been another trend which may also have affected this change, and that is a trend away from what I would call owner-proprietor management in banks? Would you feel that where you have owner-proprietor management you are more likely to get enterprise in the management, enterprise looking toward a willingness, perhaps, to make the loans involving greater risk than you may have—I would say this is a question that not only applies to the banking business, but even more widely to the American business community.

Mr. COSGRIFF. As a generalization, yes. I would say that statement would be correct.

Senator BENTON. As you get your corporate executives working for a salary there is a greater tendency to play it safe.

Mr. COSGRIFF. To play the sure thing.

Senator BENTON. Well, I think that is one of the important things that has happened in the banking business, and I welcome that. When I see Mr. Bimson go to Arizona and take a substantial ownership position in his bank, I welcome it as a healthy thing, in that bank and in that community. You would concur with that?

Mr. COSGRIFF. I certainly would; yes. I believe that in the end would be the prime thing that might cause banks to go back a little bit toward risk assets.


Senator BENTON. I congratulate you for coming to Washington with this testimony, Mr. Cosgriff, and I am sure that in time you will be appreciated, even if for the moment you feel a bit lonely. I think time is working on your side.

Mr. COSGRIFF. Thank you very much, sir.

Senator BENTON. We shall recess now, subject to the call of the Chair.

(Whereupon, at 11:15 a. m., the committee recessed, subject to call.)

×



9 780130 269659

[illegible]

Digitized by Google



